Prudential: leading in Asia

Ajay Srinivasan, Chief Executive, Fund Management Prudential Corporation Asia

Strategic overview/performance

In this section what I would like to do is just give you a sense of the size, the characteristics and the potential of the mutual fund market in Asia. Let us start with the size and growth of the mutual fund market in Asia to begin. The chart on the left hand side here shows the rapid growth of the market between 2003 and the third quarter of 2006. The Asian mutual fund market is currently about £700 billion in terms of size, having grown at a healthy 22% per annum over the period shown in this chart. On the right hand side are the constituent countries, their size and growth over the same period. I think there are two or three points on this chart that I would like to point out. The first is Japan, and Barry talked about Japan in a different context, but Japan continues to be bigger than all the other markets put together. Japan and Korea combined are 80% of the mutual fund assets in the region. And finally China and India, by virtue of their rapid growth have come from behind to become really significant markets in their own right, and we see this trend only continuing in the future.

This slide looks at the Asian market size in context by comparing it to the UK and the US. As the arrows on the right hand side suggest, Asia has grown faster than the UK or the US in the period shown here. Our view is that this trend will continue, and as this happens, and as the asset pools in these regions grow at differential rates, Asia will increasingly become a prominent part of the global mutual fund market. According to our estimates, there are about 450 million people who are target customers for mutual funds in Asia. Now that might sound like a large number to you but that is only 16% of Asia's population and let us not forget, this is with India and China at the stage of development where there is much more to come. So as India and China develop and get wealthier, we expect this target population to increase considerably in size. One of the key factors driving the growth of mutual fund assets in Asia is the size and growth of household financial assets as shown on this slide. As this chart shows, at about £11 trillion, Asian household financial assets are three times the size of the

UK and over half that of the US. This excludes physical assets which in some markets in Asia can be quite significant. These financial assets are looking for vehicles, vehicles to meet accumulation needs, to meet retirement needs and to meet protection needs.

Within the overall growth in household financial assets though lies a very interesting trend: the demand for equities and mutual funds as assets seems to be growing faster than the overall growth in assets. This trend clearly benefits providers of mutual funds like ourselves. While there are several factors driving this, let me just point out three of them. The first is the strength of the Asian equity markets which have been very strong and I think by all opinions seem to be the same going forward. The second is the strength of Asian consumer sentiment and the strength of business confidence in Asia. And I think the third, and this is probably the most promising trend, is I think the growing realisation that consumers putting their assets in low paying deposits are not going to be able to meet and get the number that Bill Lisle talked about earlier today.

Having seen some trends in customer numbers and product categories, let us look at what is happening with distribution. The story here again, I think, is quite clear: banks have been increasing their share of the distribution pie and, as the chart here suggests, are forecast to continue to do so. There are broadly three types of bank operating in the market and all have slightly different emphasis. On the one hand there are the large regional global banks, on the other hand there are the large single country banks, and I think on the third hand there are people who operate in niches, either in the country or across the region. Our strategy really is to cover all these three categories when we look at our business.

Although the mutual fund market has grown rapidly, and I have shown you this chart every time I come here and every time the numbers grow at 20, 25% per annum, I think the road ahead is even more exciting and this slide gives you the six reasons that lead us to have that optimistic view. I have covered this in great detail in many presentations in the past so let me just summarise it here by saying in Asia we have a lot of people who are getting wealthier and tend to save a lot of their income. These people are looking for vehicles to invest their money and to plan for their retirement needs in an environment where mutual funds account for 6% of household financial assets compared to two and three times that amount in Europe and the US, so as I said at the outset, the market is attractive, it is growing, yet there is considerable headroom for future growth.

From the markets let me now turn to our business in Asia. What I would like to do in the next few slides is just give you a sense of the scale of the business that we have built today. Let us start first with the geographic footprint of the business. We are currently operating in nine markets in Asia, defined as including Japan but excluding Australia and New Zealand. These nine markets account for 96% of the household financial assets in Asia. Recently we added the Middle East to our portfolio by securing a licence in Dubai to both distribute and manufacture investment products in a part of the world where wealth is growing by leaps and bounds. This geographic footprint not only gives us access to the largest and fastest growing asset pools in the region but it also helps us diversify our risk. Planting flags in different markets though is not really the focus of our strategy. We want to be material in every market we operate in and this slide tells you not only how we are doing but I think why that is so important. If you look at industry concentration you will see from this slide that the top five players in every market across Asia account for a disproportionate share of the market. To be a top five player therefore is clearly very important. The grey on the bars here shows that the local firms still dominate each market. For instance, if you look at the top bar, in Malaysia 63% of the market is accounted for by the top five, but 58% is accounted for by local firms. The interesting point on this slide from a Prudential perspective is that the Prudential is the only foreign player in the top five in more than one market and our aim is to do this in every market we operate in.

Earlier today Sandeep had mentioned to you the strategic choices we have made in terms of product and distribution. In a little while Ted will tell you the financial results of these choices. Let me therefore at this stage only say this about our product and distribution: our focus in terms of product is to build a wide range of products that allows us to meet our customers varying needs but within that clearly our emphasis is to try and grow the higher margin products. As the chart on the left hand side suggests, our product mix has clearly shifted, as shown by the red bar there, to higher margin products. Our focus in distribution again has been to go multi-channel so we can offer our customers the choice to access us when and where they choose and as the banks have grown their geographic reach across Asia, you will see that our distribution mix has grown in line and the share of banks in our distribution has increased.

The tangible signs of success though, to me, are on the metrics on this slide. Yes, we have built a wide and attractive geographic footprint; yes, we have built a product portfolio that is competitive with sound fund performance and financially profitable; yes, we have built multi-channelled distribution tailored to each market that allows our customers to access us when and where they choose; in the end though our success is measured by the metrics on this slide. I am happy to say that our FUM has doubled over the last three and a half years and our profit has tripled. Ted will provide you with more detail about this in his section.

How does all that growth compare with what is happening in the market? This slide gives you just that piece of information. This slide refers to a survey that was done by Asia Asset Management and looks at assets sourced in Asia ex Japan. As this slide shows, we are now the second largest in terms of retail funds raised in Asia ex Japan. If we take all funds raised, and this includes retail, institutional, as well as captive assets from the life insurance business, we get two life insurance companies ahead of us and we are placed third, but that is up from our fifth ranking last year. Prudential really began building its regional fund management business in 2001 and we believe in the last five years we have got to a position where we are now a material part of the Asian landscape.

To tell you now a little bit more about the profit drivers of our business and how this growth is translating into attractive cash returns, I would like to hand over to Ted Poole, our Chief Operating Officer. Ted has been with the business for almost six years and, having helped build this business, I think will provide you with valuable insight into how the numbers pan out.

Ted Pull

Regional Chief Operating Officer, Fund Management, Prudential Corporation Asia

Good afternoon, ladies and gentlemen. As Ajay mentioned in opening, we have built a material fund management business in Asia which is creating significant value for Prudential. The objective of my presentation is to set out for you the key drivers of profitability that is generating this value today. These are drivers that are well known to you and will be the drivers that will drive our earnings growth in the future as the Asian mutual fund markets continue to grow.

I will address the key components which determine both our revenue streams and our cost base and show you how these drivers have delivered our earnings growth to date. One important revenue contributor, the key measure for us, is the level of new flows into our business. At previous analyst meetings we have had a number of questions relating to the large variance between gross and net inflows that we experience in Asia. I would therefore like to start by talking about our flows. Gross inflows to 15 November this year are £18 billion, of which 60% are gross inflows into money market funds. 40% or £7.2 billion are gross inflows into equity and bond type products. Money market funds are still the largest contributor to gross inflows but as you can see from this chart, over the past four years we have seen a decreasing trend, consistent with our strategy of growing upper asset classes. However, if we now take into account redemptions and look at our net inflows over the same period, the picture is somewhat different. Equity and bond type funds dominate our net new money measure which at £2 billion year to date has resulted in record net inflows. Despite the level of MMF in our gross inflow numbers, they account for 10% of our net inflows year to date. However, whilst we are focused on other asset classes, money market funds remain an important product to us. It affords choice and flexibility to our customers and acts as an important and easy entry product.

In terms of our money market FUM this has reduced over the past few years but at £2 billion, it is sizeable and a profitable asset class for us. Given the amount of cash that we have shown in Asia sitting in cash deposits, we will continue to see short term cash products in Asia and so we have this year started breaking out MMF flows in our new business numbers in order to provide better information to the market. Our focus is, and we recommend your focus should also be, our focus is on net flows. As I have shown you, these are mainly equity and bond type assets.

I will now address the scale nature of our business and how, as you know, the level of FUM, or more accurately average FUM, and the asset class mix of this FUM impacts revenue and how the growth and composition of our costs behave as this FUM grows. By doing this, I hope to give you a clear picture as to how we manage and measure value creation in our business.

Starting with FUM, over the past three years funds under management have grown by 21% per annum to £29 billion year to date. Equity type assets, however, have grown by 36% per annum and as Sandeep mentioned this morning, they now dominate our funds under management. This change in mix is significant given the fee rates on the right hand side of this slide. On a net fee basis, which is the fee revenue that we record after distribution expenses, we earn significantly more on equity type products than on other asset classes. Asset class mix is therefore a key driver of revenue within our business and with almost two thirds of our FUM in equity type products currently we are seeing the benefits in our revenue growth. Net revenue is growing at a faster rate than FUM. I said FUM has been growing at 21% per annum since 2003; revenue, however, is growing at 29% per annum over the same time period and the major reason for this is the increase in equity in our FUM mix. This again is consistent with our strategy to attract assets which generate higher fees for us. We have shown gross and net revenue here as we would like to give you some key metrics. Our blended gross fee rate to the end of 2006 is 61 basis points. If we deduct the front end fees and the trailer commissions that we pay to third party distributors, our net revenue is 39 basis points. This translates to our current gross profit margin of 64% up to Q3 2006.

Let me now turn to costs. We have two major cost categories: costs of sales, which I mentioned earlier are costs of distribution and are completely variable in nature, and operating overheads. Operating overheads are dominated by the costs of people and based upon the full year 2005, these made up 60% of the total operating costs of our business. As our scale grows, our operating costs tend to show more fixed cost characteristics. What I mean by this is that, once we have invested in an infrastructure, we have established investment teams, and the necessary middle and back offices, the capacity of this platform is extensive. One other point here: as shown in the right hand side of the slide, given the growth in our business, we have seen the total cost base shift predominantly from a fixed cost basis to predominantly a variable cost basis, as variable costs have grown in line with growth in our assets. As we grow further, we will see our total costs become even more variable in nature. So how have our operating costs been growing over the past few years? Our total operating costs have grown at an 18% *CAGR* since 2003. However, this is taking into account the establishing of new operations in China and Vietnam. If we exclude these, then our established ventures' operating costs have grown at only 14% per annum. Given the scale nature of our business, our operating costs measure has been falling over the last few years, as you can see on the right hand side and up to Q3 2006 is currently 21 basis points on average FUM. This falling trend is one which we will continue to focus on. This scale effect, combined with the key drivers of one, average FUM, two, equity mix growth, is generating an increasing net margin for our business in Asia, from 27% in 2003 to 48% in Q3 2006. And this improving net margin is generating significant growth in earnings and earnings which are, again as you know, cash in nature. Our operating profits before tax have grown at an annual rate of 52% from 2003, and at £36 million up to Q3 2006 are 190% of, or almost double, the same nine-month period last year. Our profitability in basis points has increased from 10 bps in 2004 to 18 bps on an annualised basis so far this year.

This is the strongest indicator of the benefits of scale and mix within our business. How do these earnings translate into return on capital? Our current pre-tax annualised return on capital is 40%. We do have established operations earning higher returns on this, and you will hear about some of those later this afternoon. We expect, as our new ventures begin to mature, to see this overall return increase.

I said the objective of my presentation was to summarise the key drivers of profitability that are generating value today and will generate value in the future. To finish, I would like to summarise these as follows: the continued growth in net new money and the strategy we have in place to drive net inflows of higher margin products, the continued growth therefore in average funds under management, the continued improvement in asset mix that increases our average net fees and basis points, and the continued close control of our expenses growth our revenue growth. If we can continue to manage these drivers as we have done in the past, then we will see the sum of the parts continue to generate sustainable strong earnings growth and cash generation for Prudential. Thank you, and with that, I would like to pass you back to Ajay again, who will introduce four presentations on our key markets in Asia.

Ajay Srinivasan, Chief Executive, Fund Management Prudential Corporation Asia

For this next section, there are a few slides to talk about the four markets that we are going to be introducing, because what we want to do now is a deep dive into Japan, Korea, India and China. I just thought I would start by giving you a sense of what these four markets look like in an Asian context. If you recall a slide I showed you earlier, 80% of the current mutual fund assets lie in Korea and Japan. These two markets are large and very important from the perspective of where assets currently lie. If you then add the dimension of growth, India and China come right into the equation. China, for instance, has an industry that only started in the late 90s but has already grown to become the third largest mutual fund market in Asia. So if you plot the countries across Asia on the two dimensions shown on this slide, these four markets would be very much in the upper right quadrant.

Let us look now at how these four markets stack up in terms of size and growth. On the left hand side you will notice that these four markets, as of Q3 2006, accounted for 90% of the total assets in Asia. Furthermore, these four markets have grown at an overall rate of 29% per annum over the last two and a half years, much higher than the Asian average as shown in this chart over that period. Japan, Korea, India, China are also where wealth is being created in a way never seen before. Based on a report recently released, these four countries account for 80% of the high net worth individuals in Asia and 68% of the ultra high net worth individuals in Asia. Wealth is being created, particularly in China and India, at a pace never seen before and this is a key driver for the demand for investment products.

The final slide in this section just compares the funds under management in these four markets with some of the markets you might be more familiar with in Europe. As the numbers at the bottom of this chart suggest, mutual fund penetration in Asia is much lower than the other markets on this slide. At current penetration rates of about 3%, these four markets put together are bigger than the others on this chart, but what gets really interesting is if you were to assume penetration rates that of the UK, which as it happens has the lowest penetration rates of these countries here, because this effectively adds another £620 billion to the market in these four countries, and just to put that number in context, that was the size of the entire mutual fund industry last year in Asia. So to sum up this section and really introduce our next speakers, I would just like to say Japan, Korea, India and China are large and growing. They are key markets for us and I think we have a lot of success to share in what we have done in these markets. To start telling you that story, we wanted to bring on Felix Pang, our CEO of Japan. Felix has been with us for over four years and joined us from Fidelity and I think the growth that he has delivered in Japan is absolutely staggering given where we started and when we started. I think there is no better person therefore to tell you the story of Prudential in Japan than Felix Pang.

Felix Pang, Chief Executive, PCA Asset Management, Japan

Japan: Building scale via greenfield in Asia's largest market

Thank you, Ajay. Earlier on, Ajay said that Asia is growing rapidly and there is big headroom for growth. Of the four noted key markets I want to start you off with Japan. The country markets two well known home for playstations, sushi and sophisticated precision instruments. However, ironically that is, high profile through the market place is it's not exactly that friendly and open to foreign brands, as much as we want it to be. The story I am going to tell you about is the business that in this backdrop delivers strong results through strategic objectives and sees tremendous opportunities beyond. It is the paradigm in this business. We find it very exciting and fun to be in together. To start you off, as everyone in this room is aware, Japan is a very rich country, not only by its economic size – the world's second largest – but men and women whose families are electorally independent the sum of their personal financial assets is £6.8 trillion, more than that of the UK, Germany and France combined. So where do you see the power money is hidden? As you can see, quite surprisingly, the Japanese are choosing bank savings accounts, postal savings or, to some extent, under the pillow, to put their money. It is probably not too wrong to say more than 55% of this money sits idly in instruments that pay less than 1% and only 3% is presently invested in mutual funds – not much different from ten years ago, you might think – wrong. The fact of the matter is future projection of where the mutual fund share will go varies but most agree with high 4% to mid 6% range in a few years' time, a very strong and dramatic shift that is, could come in a relatively short period of time. Again, given the enormous size, the market for example, and increasing mutual fund investment of merely 1% in personal financial assets will open an opportunity of incremental £68 billion pool to the world.

Now, looking at who are the mutual fund investors, the bar chart on the left shows the savings pools of different life stage segments. Among the eight life stage segments, the largest will be retirees and it accounts for roughly 32% of total retail savings pool in 2001. This percentage is by far the highest in Asia and also amongst the developed countries in the world. What is more exciting about this chart, is the number is expected to grow to 40% with the significance of Japan world famous demographic trend super-aging population. In Japan the retirees are becoming louder and a more and more important part of a changing big picture of this personal financial asset portfolio. If you see the right graph, it tells us that the elderly segment – the red bar, that is – had not been quite quiet or bashful. They were leaders in putting money into mutual funds. For every five elderly people you meet on the street, there is one who thinks mutual funds has the answer for a happy retirement. Moving beyond, with only shy of 10% holding rate of age bracket 50-59, so called Japan's baby boomers, the headroom only to catch up is staggeringly huge.

The "what" of the mutual fund market in Japan is presented in this graph. Among these broad asset categories, the story of recent years has been with Japan equity and global bonds. Yes, both in terms of asset size and inflow, these two were the hottest in two years. Investors seeking capital growth jumped into Japan equity for it looked attractive for assurance of economic recovery and improved the balance sheets. While absolute size is still small, it is also worthwhile to note that, given the strength of fast growing economies of some emerging countries and regions, the growth seeking money also fled to equity Asia and emerging. The third bar from the top, the total inflow to this category had an impressive 94 year on year increase.

The question of the "how" in Japan is relatively simple. The mutual fund market in Japan has been and still is dominated by intermediaries. Historically, speciality securities houses have been the providers of all investment vehicles but since Japan's big bang, that is deregulation in 1998, the banks made steady and significant inroads. As you see, the trend from this graph, the power shift is more than significant. The industry experts, like Saluri Associates, predicts banks are likely to capture and enjoy a 50% plus share in no time. Now, here is a graph that I like. Being a part of a UK conglomerate, being grouped as one of the foremost forces in Japan, PCA Assets' penetration has more or less been confined to what foreign players share allowed. For example, in 1992, it was only a total of 0.2% assets given to foreign players. The biggest reason behind this, the mutual funds were mostly proprietary, close ends, and non-performance driven. Very small need found in this market at the time. Since then things have evolved very fast. The situation we see today is more of a foreign player led one. The ten percent share in 2002, as you can see, has now grown to 16%. I must say the dark ages are behind us. Foreign players are given a big opportunity to further display performance, sophistication and capability. Nonetheless, however the market is open and welcoming mood, not everyone gets a hug and kiss. In reality, amongst 33 asset managers, only a handful of names actually get the kind of scale and reputation that rationalises long term business commitment in this country. The graph you see here is a cumulative three-year net inflow of top foreign asset managers. I am happy to say that, in the timeframe, PCA Assets has won a very strong result. The company's net inflow was the third largest. For a company relatively new and unknown in Japan, the result is hard to go unnoticed. Let me tell you what is behind this achievement. As explained earlier, we saw an exceptionally positive market situation, with PFA, demographic, lifestyle, economics. Our key development focus was product differentiation, understanding the customer, research on competitors, collaboration with intermediaries, were put in the first seat in designing the business. Here are the two funds which came out of this process: US High Yield Open with a monthly dividend payout feature, and Indian Equity Open aimed at the gross, launched successfully and seen as strong, outside surprise. On the left, PCA US High Yield Open, asset growth since the launch in 2003, today £1.6 billion in assets. It is the biggest of its category in Japan. Trailed by a number of other big brands, the fund remains to enjoy a solid first position on a strong investment commitment overall. On the right you will see the growth curve of Japan's first India Equity fund. Launched in 2004, the fund earned a very steady and growing investor support. This PCA India Equity Open has £500 million in assets and is considered as one of the most successful country funds launched lately. With 24 distributors increasing, the fund continues to drive India investing scene in Japan. In terms of distribution, our focus has been, and still is, with intermediaries. Starting with mid-tier broker but expanding into regional banks, our footprint is seen in almost every major city in Japan. Here we believe our strength lies in delivering quality marketing support and sales team education. Total 41 intermediaries, 1,800 sales outlets have our fund on their shelves. On a most recent note, I am happy to say that we have added Sumitomo Mitsubishi, the first bigger bank which liked India Equity. The good news beyond our current 41 is that we are still at only 10% of coverage nationwide. We still enjoy 360 more intermediaries to be exploited.

Having said all that, here is the interim report card of the business progress. The Japan fund's business, on the left, currently has assets of £2.6 billion, 70/30 fixed income and equity mix. Over on the right, as you can see, we are booking £4.9 million on PBT, Q3 2006 base, the trend surpassing that of Fiscal 2005 and it's a good one. Given the holes in the market, and for a pure greenfield operating model, the result displayed is a very encouraging one, if not promising. So what this did for us in Japan ranking, in a scale term, is it translates to sixth position amongst the 30 players in the space we competed in, a significant advancement achieved from 24th three and a half years ago. In terms of the path forward we are positive and optimistic. The market is expected to expand at a faster rate than ever. The industry experts' forecast of 4.8% to 6.6% of personal financial assets as you saw earlier would not be an over-statement I feel. We are positioned appropriately to ride an advance on this growth going forward. Our products, as you see on this picture, we have a good position into the broad spaces we have identified earlier. In the space of equities, which is the left hand side, seeking gross money, we already have three funds aligned right. In the space of fixed income, that is right hand side, regular dividend money, we have five funds. The plan is to add a couple more, utilising group synergy in the areas of clear demand.

In creating more value with intermediaries, we have distinct relationship, building strategy to each segment. For the opportunities arising from the bank segment, mostly regional banks, that is, we will focus on broad education campaigns and marketing programmes for sourcing stickier money and profit. In the mid-tier broad segment, we focus on sound product launches meeting retiree segments. These are high propensity to invest segments. We deliver CRM-based ideas and campaign promos to seek quick asset increase. Lastly, but not least, the bottom, in big words, we will work on cultivating further mega-relationships. As you know, Japan used to have eleven big banks; today it is three, and these are phenomenally big. These are scale and reputable image that will help us to go together. So putting all those things together, I say this, given the quality of people we have today, the lessons and experience we have had, we are confident that we know the Japanese customer. We have a very unique and strong Asian brand, backed by product intelligence and marketing expertise. We have proven strengths to continue to open valuable product spaces with collaborative marketing and education. We see underlying business momentum and structure platform is exceptionally strong and concrete. We are confident that we are well-positioned for next level growth and robust increasing profits. Now, on that note, I want to hand this over to my colleague, Mr S H Hwang, whose business has also seen a very great result.

Sung Ho Hwang, Chief Executive, PCA Asset, Korea

Korea: Building scale since acquisition

Thank you, Felix. Good afternoon, ladies and gentlemen. It is an honour and a thrilling moment to bring the status of business in Korea to all of you this afternoon. The sequence of our story today: first we will review the market trend and developments that are re-shaping the industry and market; secondly we will talk about how PCA Asset Korea take those changes to our benefit and lastly we are also going to talk about how we are going to take the business momentum we built until today to the next level of success in this important and growing market in Asia. I will venture to say our story today is a story of success, also with great promise going forward.

There are a few important trends and developments in the market; although we will talk about them in detail, let me quickly put these changes into perspective of our discussion today. Individual wealth is growing fast in Korea. The high net worth individual segment is growing the fastest in Asia. People are migrating to investment products from their traditional cash and deposit products. They are accepting incremental risk for better returns in the equity market. The Asian retirement market is growing also fast, Korea is one of the fastest ageing societies in the world. People fear; people are putting aside money like they have been doing for so long in the bank deposit market. As you know, Korea's saving ratio is one of the highest in the world. Increasing interest in a new regional and global product, as they diversity their assets, they go beyond the Korean market. Also evolution and expansion of fund distribution systems in the market opens up huge opportunities for an independent asset management company like us. With this as a background let me quickly look at these opportunities in more detail.

Wealth and low penetration of the individual asset market, as you can see here, size of the financial assets of individuals is over £650 billion, already big. 80% of this asset exists in the bank deposit and insurance market, funds product only 6%. These assets are migrating to the investment product. This year we believe at least £6 to £7 billion has moved to funds products from bank and from investment insurance products. One percent change in this spectrum represents about £4 billion of business opportunity for our industry. Pension market is another big opportunity; retirement investment linked products, as you can see here, growing very fast. National pension – the sixth largest in terms of the pension asset in the world today – collects and adds about £1 billion every month to their pension asset. Corporate pension just started this year, with a regulatory reform also is expected to grow rapidly. Obviously our sourcing need for professional asset management for this industry will grow exponentially in this important market. Cross border funds, cross border product, we mention about the growing needs of the international and regional and global asset as Koreans go abroad for their investment and diversification of their assets. A huge opportunity exists for an international player like ourselves. Its size is only £10 billion today but it has just started. As you can see here the market has been growing – CAGR almost 100% from 2000 to 2006.

Retail worth, institutional, the industry has been growing about 27% per annum. The majority of industry growth has come from the retail segment. The retail sector has been growing twice as fast than the institutional segment. Now retail business accounts about

42% of the business while it was about 30% 2003. Institutional segment is expected to grow through pension, corporate and they are more active as to allocation to funding this year, in the future.

How do those opportunities express themselves in the product market? As you can see here, in the red and blue lines, the equity funds and volume has grown five times, to 25 billion, and equity savings plan, which is a particular phenomenon in Korea, grew to over £10 million from almost zero in the last less than two years. It has changed the landscape of the industry and the Korean capital market for that matter as it stabilised the market, therefore earned the trust of individuals, therefore in turn it accelerated growth of the market. This year equity accounts have grown about £10 million. Half of that has come from the equity insurance savings product and then followed by insurance investment linked products.

In terms of general trends, still the dominant force is security houses. Now, again, the landscape is changing. The banks are becoming a dominant force in the fund product distribution: 60 to 70% of all new funds are distributed by banks. As marked in the green colour there, insurance companies are slowly becoming a distributor of fund business as well. They are small but they will also change the landscape over time. Foreign players have gained a market share in 2006 and we believe such a gaining in the market share will accelerate as products get diversified, asset classes become regional and then global and more sophisticated asset management services are needed. Also there are queues for new entries. Many global players, almost all global players, are entering the Korean market today. There were many entering the market before but mostly new entries are paying costly M&A prices.

Now, let us see how we were able to take those advantages to our businesses. Since acquisition first of all, we have completely re-structured our business. We have rebuilt our business model. As you can see there, 71% of our business today is from retail. Three years ago 71% of our business was from institutional businesses. As you can see, the purple coloured box is 71%, it is about the same size, become 29%. That means that total white box and purple box, put together, it has grown about three times: that is the volume. Because retail business commands higher fees, our fee has been doubled. So if you do simple arithmetic, volume grown three times, fee level grown two times, so our revenue has grown six times. Furthermore, our portfolios are growing similarly today.

How we did it in the product? This is how we did it in the product. In about one and a half years we created about £2 million retail business with these entirely new products. We launched these products at the nascent of development and took full advantage. One interesting point I would like to make here, that all our products have to be explainable in 30 seconds to our customers. Our disciplinary rule is that we do not launch our product if we cannot explain our product in 30 seconds. For example, we have industry leaders funds, we have Asian leaders funds, we have One Trillion and One Club fund, we have a Silk Road fund, Silk Road fund taking, for example, everybody in Korea knows this fund investing along the line of all silk trade road countries, like India, China and Korea. One Trillion and One Club Equity Fund, this fund is investing in the companies that are making or operating profit over One Trillion and One, which is about $1 billion. These types of products do not need any more than 15 seconds to explain to our customers. I will explain why it is so important to keep our product names short and simple when we talk about distribution.

Pension, investment linked products, offshore markets are also important growth areas and have opportunities. Again, we are well-positioned to take full advantage of these trends. We have received the highest rating for the equity management services from the National Pension Fund in Korea. We have already top five corporate pension fund managers in defined contribution market. We manage most of all major insurance companies' investment linked products and life cycle planning products in Korea. Retail funds and fund market, we are very strong. We have already 17% market share and we are pioneering institutional funds market. We have won two important international institutional mandates recently.

Let us look at our portfolio composition. Obviously, focus on active funds, value added funds, different share results in the market, portfolios are different than those of market, as I mentioned market participant devices about 60 to 70% of their business from institutional market while we derive about 70% of our business from the retail segment. What does it mean? 70% of their business is a little unstable; 70% of our business is stable and persistent. 60% of bond fund market is below one year. We accept only over one year bond funds in the market because we do not believe we can deliver incremental return that the customer wants in such a short period of time.

Let us look at our distribution. Distribution of our product is wide and it has depth of coverage. We have 14 banks out of 15 banks in the country, *28* securities companies are our partners. This means about 7,000 people, branches of the banks and their people and their customers know about us. Every distribution relationship we go through thorough due diligence process with them for their acceptance of our products and ourselves.

Let me go back to the point I made earlier about keeping our product name short and simple. The point is that how are we going to get all this bank's private bankers to remember our product when they sell their products first, because most of them, they have their own captive businesses and also when they have seven to ten asset management companies crowding their product services. Unless we keep it simple and short and easily explainable, we will not get the choice of the products. This is how we developed our business with the banks. Again, we used gate opener products and expanded our relationship to core products. As you can see here, HSBC, Standard Chartered and KB – Bill mentioned that KB is the biggest retail bank in Korea and at the same time the biggest bank in Korea – we open with a gate opening product and then move on to our Korean Leads and core product and then move on to the international product. Citibank, the relationship was also the same, they were a hard nut to crack. We waited almost one and a half years and finally they had to come to us for a structured product as we were sweeping the market with that product and then they slowly moved to our core product. Pretty soon, they will be distributing our regional product, called Asian Leaders Equity Fund, soon they will distribute our global product, called M&G Global Leaders Fund.

Again, without consistent and award-winning performances, this would have been difficult. These are some of the awards received in the market on three-year equity performances, we are second best equity house in Asia, awarded by Asia SM Management in 2005, and there are two more local daily newspaper awards we have received. Also, as I mentioned, we have received the highest rating from the National Pension Fund. As an equity house, as we become a fund house, we are also trying to improve ourselves in various ways. We are cloning the superbly working portfolio strategy and risk management functions of M&G, our sister company in the UK, to Korea.

Let us look at our FUM growth. We have tripled our FUM, growing 40 and 50% a year while the market was trailing behind significantly. Obviously this created huge value for us. Consistent growth in FUM to the complete change of our business models obviously did wonders for our numbers. By September this year we are at about £5.4 million profit. As you can see here, our FUM was growing, CAGR we are 53%, we have completely turned our businesses. It is a truly successful story of rebuilding the businesses. I might add these are very high quality earnings.

Let us look at the rankings. We are 15 out of 48 asset management companies in Korea. We started as 25. We are third in terms of the foreign companies, the first one is Prudential USA in Korea, entering with a $.5 billion investment. The second one is a JP Morgan Private Equity fund, again acquiring one of the Korean banks' subsidiaries or fund businesses. We are the only independent one that has grown organically, working through with the open architecture system in the market. Also worth noting is that all the companies above us, 1 to 14, are either captive businesses of banks or security houses, we are the only independent one. Also worth noting, all the companies above us are also selling our products, such as Samsung. Our story since acquisition is full and reassuring of prospects of our futures. We have got the scale, profitability, customer and distribution. As you can see here, FUMs tripling from £1.1 billion to £3.7 billion, producing excellent profit, *YTD* September is £5 million return on equity, over 60%, 300,000 retail customers. Retail business volume is 71%. Three years ago we had only one bank, now we have 14 banks out of 15 in the country. We had less than 1% of business came from banks; now 64% of business is coming from the retail banks.

Our formula for success going forward is very simple. What we want to do is we want to reinforce our position today. Obviously we will have to move, next strategic move, such as developing a joint fund distribution system with our life colleagues in Korea. We are working very closely, as one PCA, to develop this important new alternate distribution channel for us. We have excellent product ranges. We have strong performances, we have depth and stability of customers and distribution and we are maximising both regional and global presence. In the last 15 minutes I was trying to describe all these new opportunities are just the tip of the iceberg in terms of their explosive growth potential in the future, and at the same time I was trying to prove ourselves in that taking these opportunities and turning those into our numbers and value creations, PCA Asset Korea's performance over the last three years clearly shows that we can deliver to our shareholders the continued growth, in scale and in profitability of their businesses in Korea. Thank you very much for listening to our story. With that, I would like to hand over to my colleague, Cheeseng, for his truly amazing China perspective.

Shek Chee Seng, Chief Executive, CITIC, Prudential Fund Management, China

China: CITIC-PRU: Building scale in a large and fast growing market

Thank you SH. Good afternoon, ladies and gentlemen. It is a real pleasure to be here to give you an insight into China's fund management industry and also to update you on Prudential's joint venture fund operations in China. I always get very excited talking about China. Many of you may not be aware, but China's fund industry has been one of the fastest growing in the world in the last few years. With a projected annual growth rate of nearly 60% from establishment in 1998, to 2010, China is now seen as one of the most promising and exciting countries in Asia, if not the world, as far as the fund management industry is concerned.

When it was first established, many doubted the market potential of China's fund management industry but now many more are saying ignore China at your own peril. In the next 15 minutes or so, I would like to share with you some of the key factors that have and will continue to fuel the growth of the China fund industry, some of the exciting opportunities that we see arising from this and how we have positioned ourselves to capitalise on these opportunities.

What is clear to people who have been following China's phenomenal growth story is that the country is flush with cash. Current retail savings is estimated to be a staggering one trillion British pounds, which is more than twice the size of the combined market capitalisation of the Shanghai and Shenzhen stock exchanges. Even more glaring is the country's mutual funds industry, which has a total FUM of only 3% of total retail savings. Nearly 90% of this cash remains stashed away in bank deposits and some say under the bed, earning less than 2% per annum after tax, which contrasts sharply with a mature market like the US where the culture of investing in securities is well-embedded. What is not shown in this slide is that only an estimated 15 million out of a middle class population of about 250 million have invested in mutual funds. With a huge cash pool waiting to be tapped, coupled with a low penetration rate, there is tremendous potential for the Chinese mutual fund industry to continue to achieve phenomenal growth well into the next decade.

With the one child policy still being enforced in China, China's population of 1.3 billion is growing fast. By 2015 about one third of the population will be older than 50 years old. The official retirement age in China is 50 for women and 60 for men. This does not bode well for folks who have to retire at such a young age without a sufficient nest egg to rely on for the next 25 to 30 years. While the Chinese are getting older on the one hand, they are also getting richer, with better education and higher paying jobs. The middle class, defined as those with annual household income of at least 48,000 Renminbi, or equivalent to about £3,000, account for about 250 million or 20% of the population today. This group of middle class Chinese is projected to increase to more than 700 million or 55% of the population by the year 2015. These two trends – aging population and growing affluence – give rise to increasing demand for retirement and wealth management services.

Most of China's phenomenal economic growth and wealth is concentrated in the eastern provincial coastal region with many of the relatively wealthier people residing in several key provinces and cities as highlighted in this map. Each province has its unique culture and buying behaviour but one trait is common among the wealthy Chinese and that is they place their trust in banks and are particular about brands. Reaching these wealthy people and winning their trust is one of the key challenges for any fund management company operating in China today. China's fund management industry has seen phenomenal growth in size since its establishment just eight years ago. We have also witnessed a proliferation of product type from pure equity funds in 2001, when open-ended funds were first introduced, to different asset classes and variations within each asset class. The growth of the industry both in terms of size and products has taken place despite it being purely domestic oriented and fund houses still practically limited to two fund launches per year. This is very surprising to a lot of people. The Chinese government has set its sights on turning China into a global fund management centre. To ensure the sharp growth of the industry continues well into the next decade the government has implemented various initiatives, such as the stock market reforms which has been very successfully implemented, establishing a financial futures exchange, introducing the QFII, QDII and enterprise annuity or corporate pension schemes. In fact the days of only two fund launches per year per fund house that has hampered the growth of fund houses in China could very well be a thing of the past in the near future.

From this chart you can see banks clearly dominate the mutual funds distribution channels with more than 70% of the distribution market share. This is due to their extensive geographic reach and the trust Chinese people place in them. You will be surprised to know that many Chinese people buy or redeem a fund based solely on what the customer service manager tells them – no questions asked. The government is beginning to explore the further development of alternative channels but the dominance of the banks is not likely to change in the near future. The big four local banks, as you can see, namely ABC, CCB, BOC and ICBC, alone account for about 60% of the mutual funds distribution market share, amongst the 13 domestic banks licensed to distribute funds. For a fund house to attain leadership position in the industry, or even to survive in the long run for that matter, having at least one of the big four banks to back you up as a distributor is imperative. Until 2002 the Chinese fund management industry only had fund houses owned by local shareholders. Since then the Chinese government has encouraged the growth of foreign JVs to add to and raise the level of professionalism in the industry. There are currently 24 JVs and their combined market share has grown steadily, taking up about 32% of the market share as of the middle of this year. This is due to a few reasons. Firstly, more joint venture fund houses have been licensed than locally owned houses. Secondly, banks and investors are increasingly placing their trust in JVs for their investment expertise, risk management capabilities, strong customer service orientation, and innovative products. Last, but not least, it is the overall positive brand image of JVs, especially those companies with renowned foreign partners like CITIC Prudential.

Prudential's entry into the China fund management market has been the result of a well thought out strategy, born out of the vision to be the leader in the industry. In the CITIC group, Prudential has found a reputable partner which is the largest state owned financial conglomerate in China and whose name recognition amongst locals in China is as strong as Prudential's in the UK. CITIC brings with it the strong local brand recognition, market knowledge and context necessary to give CITIC Prudential funds a strong kick start and market acceptance. Prudential has all the international experience and soft skills necessary to give the JV a strong foundation to grow its business into leadership position. With the respective strength and pedigree of CITIC and Prudential combining to a strong strategic fit based on trust, an important element which is lacking in many JV's today, CITIC Prudential fund has what it takes to be a win-win partnership and a leader in the industry.

Underpinned by the economic and demographic trends that I touched on earlier, we see five key areas of growth opportunities for our funds business in China, and these are mutual funds, QFII, QDII, enterprise annuities and investment linked products. In the next few slides I will elaborate on each of the above growth opportunities and what we have done to exploit these opportunities.

Prior to launching our first mutual fund in April this year, we undertook in depth market research for the following purposes: to understand where the market potential is for us, to determine our target customer segments and what their needs are, and buying behaviour is, and to help us develop products which will appeal to these target customers. We launched two mutual funds this year and successfully attracted more than 170,000 customers many of whom are retail customers in the key target segments that we are after. These are the people in the 35-55 age group who have the highest earning capacity and propensity to invest. One of the main reasons for our successful launches is that we roll out the products at the right time with the right features that meet the needs of our target segments. Another important reason is of course distribution.

Our strategy for distribution is to work with at least two of the big four local banks that I mentioned earlier on. This will give us the geographic reach we want and the stability of shelf space that we need to ensure that we are able to launch at least two new funds a year. For the first and second launches this year, we secured main distributorships with ABC and CCB respectively. Our ability to get the backing of ABC and CCB against tough competition for shelf space underscores the high regard these two banks have for CITIC Prudential funds. These two banks have thousands of branches across the country and are well-entrenched in the target provinces and cities that we have identified as key target markets. For the two launches this year, we raised a total subscription of 6.4 billion Renminbi, which is equivalent to about £428 million. I am proud to say that, with both ABC and CCB, we raised more money than any other fund house working for the first time with either bank. This underlines the strong relationship we have established with both banks within a short time and certainly bodes well for future fund launches. What is even more noteworthy and something I am particularly proud of is that we have already turned operationally profitable since the third quarter of this year and this is even before we launch our second fund. With a build up of scale we can expect this profitable trend to continue into the future.

Besides mutual funds, the next key areas that the Chinese government wants to see grow in a big way are QFII and QDII. QFII stands for Qualified Foreign Institutional Investor which is a scheme through which a foreign institution is licensed to invest a fixed quota directly into the Chinese domestic securities market and A-Share stock market. Today, the three-year old QFII scheme has issued about 50 licences and awarded a total quota of nearly US$10 billion. The Chinese government has committed to increase the quota further. You will be surprised to know that the QFII scheme is so hot that we understand certain successful QFII applicants had made a tidy sum just selling their quotas to a long line of waiting applicants.

Prudential Asset Management Hong Kong, has recently secured a US$200 million quota and is working with our colleagues in Korea and Japan to launch A-Share equity funds. CITIC Prudential Funds will advise PAM Hong Kong on the Asia investments. QDII stands for Qualified Domestic Institutional Investor and this is a scheme through which Chinese residents are permitted to invest a fixed quota every year in approved foreign investment instruments. The scheme was only introduced early this year but already a total quota of more than US$12 billion has been awarded to several local banks and one local fund house. The QDII scheme offers a great opportunity for fund houses that have shareholders with proven international investment expertise and CITIC Prudential Fund is certainly one such company. We have already taken the initial step of applying to the Chinese regulators to approve our first QDII product.

Enterprise Annuity, or EA, is a voluntary DC corporate pension scheme introduced by the Chinese government last year, whereas the National Social Security Fund, or NSSF, is a government sponsored DC public pension scheme launched some five years ago. Now the Chinese government is keen to boost both the growth of the EA and NSSF schemes as a way to address the issues arising from its aging population. There are ongoing discussions within the government regarding tax reforms to encourage the setting up of more EA schemes across the country. The growth potential of the pensions and retirement market as shown in this slide is tremendous. We plan to lavish Prudential's expertise in the pensions business to apply for an EA licence and bid for EA and NSSF mandates.

The ILP market in China is still embryonic despite the strong growth of the domestic Garth insurance industry as introduced by my colleague. However, if the experience of other mature markets in Asia, like Singapore, Malaysia or Taiwan is anything to go by, we can expect the ILP market in China to similarly take off in the near future. Since May of this year we have started advising CITIC Prudential Life on its existing ILPs and we plan to jointly develop more new ILPs with the first new ILP roll out expected in the first half of next year, so watch this space. Both of Prudential's JV companies in China have the unique advantage of having a common logo and brand name. As I mentioned earlier, the Chinese are brand conscious. Having a common logo and brand name, backed by Prudential's strong reputation in ILPs in other markets, will lend credibility to the ILP products offered by CITIC Prudential Life and advised by CITIC Prudential Funds.

To recap, I mentioned the key opportunities in China are in mutual funds, QFII, QDII, pensions and ILPs. CITIC Prudential Funds is well placed to lavish the resources, expertise and reputation of Prudential to harness each of these opportunities. We believe our key competitors lack the capability and resources to embark on all five opportunities, at least not in the foreseeable future. We are therefore in an excellent position to create a multi-faceted business in China that is unique in the industry. Three of the five business activities that we plan to undertake – that is mutual funds, QFII and ILP – are already in place. We have started a process and expect the QDFII and pension business lines to be added within the next two years. Having a multi-faceted business gives us stability and a diversified base from which we will grow our company into leadership position in the industry and be a material contributor to Prudential's global business. We have assembled a strong and talented team in CITIC Prudential Funds to make this happen. The burning desire of the team to succeed and help realise the company's vision has already been clearly demonstrated in the past one year since the company commenced operations. Of course I can certainly use some of Keng Hooi's bottled energy and enthusiasm to drive my team to greater heights.

In summary, the China story is an exciting one with all the necessary ingredients to potentially transform the country into one of the largest fund management markets in the world. For CITIC Prudential Funds we have a clear vision of where we want to go, a well-defined roadmap to get us there and importantly the right team to execute the strategies. This is clearly evidenced by our achievements so far and the initiatives we have put in place. We have set for ourselves a £2.5 billion fund target by the end of 2008. Can we achieve it? It is challenging but I am confident we can. As I mentioned at the start of my presentation, people who continue to ignore China really do so at their own peril. In Prudential's case, it had not only identified China as a potential gold mine many years ago but has also taken concrete steps to make China one of the group's engines of growth for the future. I invite you to come to China to feel the excitement for yourselves, as I have and continue to do so since I joined the Prudential in June 2004. I can assure you your trip will be a worthwhile and not a perilous one. And with that I thank you and I hand you over to Pankaj to talk about India.

Pankaj Razdan, Managing Director, Prudential ICICI Asset Management, India

India: Building scale and leadership

Good afternoon, ladies and gentlemen. I am Pankaj Razdan and I am here to talk about one of the most exciting markets in Asia. It is India and the *prospects* for our business. For the next few minutes I will take you through the prospects that we have for our business, the successful business that Prudential has built in India and third, our positioning to exploit the trend and build a sustainable leadership business. Now let me take you to some of the current trends in the market. Post-liberalisation, especially in the last five years, India has witnessed some very strong economic growth presenting *a phenomenal GDP @12% CAGR over the period.* This growth has translated into an all time high business confidence and strong corporate performance *with buoyant demand and efficient restructuring.* The combined effect of the strong economy, the strong market has resulted in the rising affluence which is clearly witnessed in the chart on the left side, where almost 70% plus population of the total outstanding 1 billion population by 2010 will move up our middle class, upper middle class and affluent segment which augurs extremely well for our asset management business.

The strong economy has resulted in a very healthy growth in personal financial assets, one due to rising income levels and also due to increased savings which is typical of most Asians. Coupled with that, with the low penetration of mutual funds, along with 52% of these savings lying in cash and deposits which are becoming extremely unattractive because of the freezing interest rate augurs extremely well again for our business of money management.

Mutual Fund has been able to exploit this trend extremely well which is reflected in the 26% CAGR growth in industry but largely being led by private sector mutual funds which have grown at a pace of 42% CAGR against a negative growth of 4% by government owned banks, government owned mutual funds. We believe that this trend will continue with private sector investing behind investor education, coming out with innovative products, expanding distribution and creating excellent customer service. This augurs extremely well for Prudential Asset Management business in India, being the leader in the private sector space.

Let me highlight some of the trends which have led to the stupendous growth of mutual fund industry. Let me highlight on the product side: India has been one of the most attractive markets and I think by the time I was sitting here I got another estimate saying that the market is up by 185 points. So in the last four years the market has actually grown four times in the period of 2002 to 2006. The rising market with favourable taxation benefits which have been given to Mutual Fund investors has reflected in the Mutual Fund industry growing their equity assets from 24% to 40% of the total outstanding assets, a trend which augurs extremely well for all of us. Another interesting trend, I think from this morning you have been highlighted about the Indian markets. It is a very, very large country. So on the distribution side the whole challenge is to go and reach to that large number of towns and villages that Mr Kamath spoke of in the morning. The large base of the Indian financial savings has been widely distributed. Household deposits, which is a key component of personal financial assets, which is totalling close to £144 billion, have more than 60% of the these assets dispersed over 750 towns, 588 districts and, as Mr Kamath said in the morning, 600,000 villages. So there is wealth in the country which is widely dispersed. The challenge is to go and have distribution which can go and target this kind of wealth. We believe the banks will continue to dominate the distribution business and they will do so, one, because the presence of infrastructure to provide geographical reach – let me give an example: the public sector banks, the government undertaking banks, they have 40,000 branches or point of sales in both urban and non-urban areas. This will lead them to dominate the distribution industry. Apart from the physical presence, increasing contribution from the fee base income because of unattractive deposits, with the of the deposits, will force these banks to go and start looking at selling an alternate fee based product. We have witnessed this trend extremely well with private sector multi-national banks and we believe it is going to continue in the future.

Along with the banks, IFAs and agents are likely to grow since it provides a very cost effective reach in non-urban locations. Besides very interesting distribution and product trend, there are a large number of regulatory trends which are emerging in the Indian market which makes us believe will lead to the growth of this industry in a much faster way. There are many more trends to share with you. I will highlight a couple of them which are very important and aiding the growth of this industry. The number one is India has been largely a very protected economy in terms of saving. There is a continuous approach by government to dismantle the existing benefits given to the traditional products, which is leading to migration of these products into the capital market led products like Mutual Fund which will clearly throw open approximately close to £380 billion of existing and next five years' incremental savings. The next important trend is allowing Mutual Funds to go and launch products in alternate classes. The recent opening of real estate and commodities for investments by Mutual Fund will actually open up the physical savings market which is there to the tune of £300 billion. Next there is a roadmap by the government of India for a complete movement towards capital account convertibility which will appear over the next three years. We believe, moving towards this path, will allow us, for the local investor to go and invest in international products and allow the offshore money to go and participate in the local economy. All these trends augur extremely well for an asset management business.

One of the fastest growing segments in this overall growth has been the high net worth individuals. India, as reflected on the chart, is the second highest growing in the high net worth segment, next to Korea. It has shown a growth of more than 19% over this period. Interestingly, this high net worth segment, the typical investment pattern ensures that 37% of the wealth is into sophisticated products, like alternate investments and real estate. This is an area which is currently untapped by any PMS provider. PMSs typically lack a distribution asset management service, other than Mutual Funds. Anticipating this growth in high net worth segment quite early in the life, Prudential ICICI was the first AMC to launch the PMS business in India.

Let me move from the key trends, and highlight some of the fast growing leadership business built by Prudential in India. On the customer front, Prudential ICICI has been very aggressive and has been growing the retail business which is clearly reflected in the chart on the left side. This retail growth has also been capitalised on the market trends which is clearly reflected in the high growth of equity assets, in increased contribution from non-urban centres as I discussed earlier, that a large part of the wealth remains in the non-urban centres, and third, acquiring this customer using agency which really helps us reducing the cost of overall distribution. We believe the retail business will continue to grow and will result in building a qualitatively superior business for us.

On the product side, we have managed to capture the equity market trend quite well, thereby aggressively growing our equity assets from 13% to 31%. Many presentations from morning, starting from, Ajay to Ted pointed out, that in our business the profit drivers are the mix of so equity is one of the big drivers for our profits. So we have actually been able to utilise this market trend, building our assets on the equity side. We have launched many funds in the past three years, one, to capitalise on the buoyant equity market and complete our product offerings. The example is the India Infrastructure Fund, clearly an attempt to capture the growth in infrastructure on the Indian market side. We also capitalised on the trend which is leading to money shifting from deposits to mutual funds by creating products whose outcome is very similar to products like a fixed deposit. An example is Blended Plan whose outcome is a product which gives a certainty of return using equity markets and a very, very low volatility, typically capitalising on the trend of movement from cash to mutual funds.

Recent research suggests that fund performance is a very key determinant for the customers' selection of Mutual Fund. We have managed a consistent superior performance on an overall basis, and more importantly on our equity fund, as is witnessed on the chart for the period of the last two years, across asset classes, both equity and debt more than 90% of our funds have been in the top two quartiles which augurs extremely well for an asset gathering experience.

We have grown our retail infrastructure to more than 74 locations and added more than 30,000 points of sale, which caters to various segments of our customers. Phong in the morning pointed out how large Indian markets are and how large you have to be to have a presence of distribution and your own self to go and capitalise on the retail portion that exists. However, using our own retail infrastructure we have also been able to build a very successful multi-channel distribution system to go and tap the various customer segments. Our focus going forward will be one, as is seen on the left hand chart, to go and leverage on our existing distribution infrastructure which is by deepening our existing relationship, by providing them with the right products, training, good customer service, we will leverage the existing distribution infrastructure of banks and securities companies by selling our products to the existing customer. Along with this, as the second box very clearly identifies, we will take a route of building our own branches in more than 220 locations in the next few years to support through a hub and spoke model more than 200,000 points of sale which is very imminent to go and tap the retailer portion in the country. Along with that, the last box on the right side very clearly reflects that our focus will always remain and continue on building our agency network and supporting the growth of government-undertaking banks as between these two channels they almost cover 80% of India's retail financial savings deposits. I think combining this leverage of existing infrastructure, building our own infrastructure, we will be able to clearly establish our leadership presence for the opportunity of more than £380 billion of Indian savings.

We believe we have a very key distinct advantage in the Indian scenario, and it is that we are a partner of ICICI Bank. We heard in the morning the kind of presence they have in the Indian market. We believe the strong *association* of Prudential with ICICI in the Indian financial service will provide us a very unique competitive advantage. There are many reasons for me to believe that but let me highlight to of you some of the key important reasons we believe will help us grow successfully into a leadership position. First, we have got potential access to more than 15 million retail customers. They are one of the largest banks in the country and one of the top 500 banks in the world. Second, they get to use the combined group infrastructure to go and reach to these retail customers. Third, we also get an access to other group companies and synergise in the areas of marketing, distribution and products. We are very recently launching a product where we are using an infrastructure of the overall groups along with an product for the retail customer in the country. We believe this is going to help us uniquely and position ourselves for leadership growth.

Historically, as has been seen in the rest of Asia, strong brands have always witnessed very successful asset gathering. Our customer research clearly brings out brand attributes which are very crucial for customer selection of Mutual Funds. We have consciously invested in brands, with 360 degree communication to achieve a retail penetration. The same is reflected in the chart on the graph on the right side, in Prudential's higher brand awareness and preference score, which is very critical and key for a retail customer's choice of Mutual Fund.

Let me talk to you about what are the important key drivers of profitability in a business. I believe the three key drivers are persistently, the second is how do we expand the relationship with an existing customer, so it is not only persistently, the customers stay, but we do go into cross sell and up sell and third, how do we build a lower cost of transactions with a customer. We have continually focused on creating directed programmes with the required customer to increase their engagement level with us. We have many such programmes. Let me highlight to you three big programmes which clearly help us drive up profitability. On the retention side, we ran this programme called Customer Win Back programme. This programme is directed towards a lost customer and focuses on finding out the reasons and providing solutions for the customers who have left us. I will not go into the detail of the programme but the results are there for you to see – 23% of the customers who we lost in the year 2005 came back to us along with this, bringing back more than £173 million of funds. It is also important for us to go and build and expand the relationship for higher profitability. We ran a very scientifically designed cross and up-sell programme which has resulted in great success in building a relationship with a customer. There are three critical success issues which are written over here. First, 50% of our gross sales, amounting to more than £375 million, actually came from existing customers, very clearly indicating that we do not only have large set of customers, but through this programme we have built very strong relationships and a great franchise with them. Second, as the bar chart very clearly shows, we have been able to grow a multi-product relationship with this customer, and *a CAGR of* more than 52% over a period of the last two years, again through a focus of efforts of cross sell and up sell. These efforts have also led, as the bottom very clearly points out, our retention, going away from 72% to 85%. Lastly the Prudential Tracker though the numbers look very small, of only 20,000 customers, but it is a new initiative. Through this technology, platform we provide customers with post-acquisition services and engage them for betterment with Prudential ICICI. On the PSM side we believe innovation of product and services is key to capturing the fast growing wealth in the high net worth segment. There is a lot of data on the chart but I would just like to highlight two of the important things, that we are the only PMS provider to launch products targeted at alternative investments, like real estate and fixed income advisory. This chart shows that we have more than half a billion pounds worth of income portfolio advisory, though the amount raised in the *real estate* area is small, but we believe it is a step in the right direction.

Another critical focus for us would be to go and tap the interest in the Indian market from the offshore investor. PCA is one of the fastest growing asset management businesses with a large presence across Asia. We are leveraging the same, one, to tap offshore money for our local funds, and two, to provide our local investors with the opportunity to invest abroad in our global funds. Let me give you a small example of the synergy. We have launched the India Infrastructure Fund in Japan to leverage our existing brand, our infrastructure, and relationship in Japan, to collect money for investing in the Indian market. Our local fund management expertise, coupled with quick launches due to our existing presence and infrastructure in offshore markets, will helps us tap offshore potential and the rising interest in the Indian markets. This has been clearly witnessed by our very successful launch of the India Infrastructure Fund in Japan. On this we are building a business of quality and quantity which, as I have shown, we have been awarded from various multiple agencies and stakeholders which bears testimony to the fact that we have been able to build a very successful and all round business. There are many awards which I could talk about but I will just discuss the top award which is CNBC TV-18 Crisil Mutual Fund of the Year award. This award is given to only one company in the country which is on the basis of that, if all your fund performance across asset classes, across schemes, are top performing, then you get the best company of the year, not only for only for individual schemes. We are very fortunate again to win this award in the year 2006.

Now, a little bit on how our FUM have grown. We have registered a very healthy growth of FUM and we have also been able to successfully nurture our advisory business. The chart very clearly shows that our profits have grown at a much faster pace than our funds which has been a common thread from the presentation which Ajay and Ted have also shown you. We started from 2003 to 2006, September 2006, year to date, our profits are close to £6.8 million. If you compare it to 2005, the whole year profits had been only £4.7 million. We believe this profitability has grown faster, one, due to build up of scale, and secondly, due to improving of quality of our business as discussed earlier in terms of the higher equity margin assets. We believe that this trend will continue in future also. We have managed to climb and maintain our leadership position in the private sector asset management companies on the back of very aggressive growth in assets. The highlight has been that this growth has been purely organic and one of the fastest in the Indian asset management business.

Going forward, we will be focusing on retail investors, with more focus on presence in non-urban markets as discussed in the early stages of my presentation, that Indian wealth is very widely dispersed. We will also be augmenting our presence in institutional and high net worth segments and focus on growing our international business. Prudential ICICI has been focusing on building the business on the four pillars of product, brand, distribution and customer service. On the product front, we will continue to deliver a product which will satisfy the life stage and investment needs of retail investors, for pensions and alternate asset class funds. We will also be launching structured products and managed accounts for high net worth. On the distribution side, we will continue to focus on increasing our geographic footprint by developing our agency and government undertaking banks. Brand is critical to us, as we very clearly witness, that large gathering of assets always happens for top financial banks. We will continue to invest through our 360 degree approach on our brand to make it more relevant to all segments of our customers. Last but not least, we will provide differentiated services to our investors based on the profitability.

To summarise my presentation, India is a large, growing and increasingly attractive market. Prudential ICICI has already built a leadership and a qualitatively superior business, and Prudential ICICI is I believe well positioned to capture the trends and build a sustainable leadership business.

Barry Stowe, Chief Executive, Prudential Corporation, Asia

We are not quite finished with the funds presentation. Ajay is going to come and do a quick wrap up and then will stay behind to answer any questions you have about the fund business. Unfortunately we are running a little late and I have a media group. I fear the consequences of keeping them waiting much longer so I am going to have to excuse myself at this point but I didn't want to leave without first of all thanking you again for coming today and listening to what we have to say. You have heard a lot of historical context about the organisation, you have heard a lot of strategies for the future and, as importantly as any of that, you have heard a lot of passion for executing against those plans. There is a track record of execution in the past that is going to continue into the future. I am confident we will meet our goals. Hopefully, you will leave with the same level of confidence. Thanks very much.

Ajay Srinivasan, Chief Executive, Fund Management Prudential Corporation Asia

Summary

Well, I promise the last five minutes – I know it has been a long day for you guys – the last five minutes, just a few slides to conclude and bring together what we have been telling you through the afternoon. I think we have covered several exciting markets and each one contends to be the most exciting market, but I thought I would wrap it up with a portfolio of all the other markets which we have not covered today. Just very quickly, we have a business in Singapore which is the fourth largest in the market; we have a nine percent market share. We have recently entered into an exclusive deal with Singpost which gives us access to half the population in Singapore, so a very exciting proposition for us. In Malaysia we are the fourth largest player and we are the leader in terms of offshore products. That market opened up to offshore products last year. We have already gained the leadership position in that. In Hong Kong we are the fourth largest player in the mandatory provident fund business. We have over 400,000 customers and that business is growing very fast as Hong Kong's economy grows. In Taiwan we are the fifth largest foreign player and more recently we have got a master agent agreement which allows us to sell offshore products into that market which is a huge opportunity. Vietnam, Phong already mentioned earlier, we are the largest fund manager in Vietnam. We have just launched a domestic mutual fund and an offshore fund and I think the quantum of money we are seeing and the interest we are seeing in Vietnam is absolutely staggering.

The Middle East, I have talked about the licence we have secured in the Middle East. We are just setting up this so I think next year you will start seeing the benefits of that business coming into the numbers, and last the real estate business which I have mentioned in the past – we have now got approval to set up our SICAV which is a Luxemburg domiciled vehicle. We are expecting funding shortly and I think the exciting bit of this really relates to the physical assets I spoke about earlier. When you look at Asia and you look at half of the savings of people lying in physical assets, I think this vehicle gives us a great opportunity to tap into that.

But what is it about us that gives us our competitive advantage and why should you go away thinking that this story will continue? I think there are four areas that I would like to draw your attention to. The first and foremost in our business is people, and I want to talk about our people and our culture. We believe we have an entrepreneurial, innovation led and driven culture that allows us to attract and keep the best talent and I think when you get the best talent you get the best results. This is reflected for us in our high retention rates and in terms of the fund performance that we have generated and you have heard earlier in the day the ILP business and how the fund performance has supported that.

The second driver in our business is the ability to develop and deliver top quality and innovative products and I think though our product development team that we have in Singapore we are able to turn out products as quickly as the market needs and as effectively as the market requires. In fact, in 2006, new products were almost as important as existing products in terms of delivering fund growth. The third driver is our ability to work with our distributors and our end customers to drive a greater share of wallet. This is evidenced by our greater number of points of sale, by our relationships with the leading distributors across the region and our growing customer base: 2.1 million customers and growing. The fourth driver is our network, across Asia and across the world. Structured with the way we are and with our business model, we believe we get the best out of being local and out of being regional or global. This is driven by our geographic footprint and organisation structure and I think here are the economies of scale that Ted spoke about.

But if there is one chart that I think brings us all together, I think it is this chart, because the strength of our business does not just come from having talented people, and you have seen some of them today, driving each country market, but from making the whole greater than the sum of the parts. As this slide shows, we have a high degree of interaction and mutual benefit by these businesses working together. The success that Felix spoke about earlier today is on the back of our fund management expertise in India, in Hong Kong, in Korea, and the US. Our China business will use the distribution of our Korean business to participate in the fast-growing QFII segment. Our presence in India and China has allowed us to deliver an innovative product called the Dragon Peacock Fund which sold wonderfully as a unit trust and as a leading investment linked product in Singapore. These four countries work equally closely with the other countries in the PCA fold and individually and collectively with our colleagues at M&G here in London and PPM in America, to create a competitive advantage that not many can match.

We believe we have come a long way since we established our regional fund management business. In fact, since we started, we have doubled our economic profit, defined as profit after tax less the cost of capital, every 18 months. Sitting where I do, I believe we built an extremely valuable franchise, given the licences, the networks, the scale and the leadership position we have. What is this worth? Clearly that is something you are the experts in. All I would observe is that in Asia, unlike the US or the UK, there are no listed asset management companies. There have been some trade sales, and specifically in India there have been more than in any other market and I just thought I would share with you what those numbers look like. In India transactions have taken place recently between five and seven percent of assets and at multiples of earnings substantially higher than the numbers you have been seeing here. We think going forward there are many attractive opportunities that will allow us to continue the pace of growth you have seen so far and I just wanted to draw your attention to four of them. First, we should really capitalise on the existing headroom for growth in all our markets but more particularly in the four markets you have heard today. Second, as capital barriers fall in India and China, to be able to sell our offshore product range into all the markets across Asia. Third, to be able to expand our breadth and depth of distribution so that we can reach the 450 million customers I spoke to you earlier about. And last, I think is to start building the other pillars of our business, to start expanding our capabilities, by adding real estate, by adding global emerging markets, by adding Islamic finance and by adding structured product. All of this, I think, expands our range and gives us new engines of growth to drive the business to the next stage.

So that is it – only five minutes. I want to end with my key messages as I started. The Asian market is large, growing and very attractive. Prudential has built a very successful franchise across Asia. We believe we have a clear strategy and have managed the drivers of profit to deliver attractive value for Prudential. The four key markets we have talked to you today about are the large markets of Asia and the material markets of Asia and we believe we are very well positioned in each of them. And last, we believe we have put into place a distinctive and advantaged platform that gives us a competitive advantage that not many others in this market can match. With that, thank you very much.

Prudential: leading in Asia

Questions and Answers

Session Three

Q: Andrew Crean, Citigroup. A couple of questions: there was a chart earlier in the presentation about the potential cash flows coming out of Asia over the next five years. Was that the insurance business or does it include the asset management business?

Ajay Srinivasan:

The first bar in Sandeep's chart was set funds, it had 22 million, that is the dividend we are actually paying out, it is not the entire cash flow.

Q: That is for this year, but the general chart which was shown very much earlier, not in your presentation but this morning, about the cash flows going out, that does not include the asset management businesses?

AS: The one chart that I am talking about, and I think you are referring to the same chart, Andrew, is the one where Sandeep showed the profile from each of the countries. Is that the one you are referring to?

Q: It is the 10 to 15% growth one.

AS: I believe that does not include the funds business.

Q: And then, over the long term, what do you think your requirement to retain profits is per year?

AS: Very low, very low. We have to keep regulatory capital, Andrew, other than that…

Q: I think your margins… obviously your margins have been going up very strongly over time, profit margins, they are up to 48% now – is there a natural level which you think you will find it difficult to push them beyond?

AS: You see, I think as Ted mentioned, we have some of the markets, which are established, which have higher margins, we have got a couple of new markets which have come on stream. I think as those markets start delivering scale we will see the aggregate margin kind of going up. Where it will end up is a difficult number. It is obviously not going to keep going exponentially and forever upwards. At some stage we will see it kind of…

Q: 60%-ish?

AS: Possibly.

Q: It will depend on how equity mix continues to grow?

AS: Yes.

Q: Jon Hocking from Morgan Stanley. Where are your investment teams located? Do you have investment teams in each country or is there some sort of regional scale there? And another sort of slightly strange question, in terms of back office, are there sort of regional hubs or is all of the back office processing done in each local market?

AS: Two good questions. In terms of investment teams, we look at our investment teams in three buckets, if you like. For local assets that are managed locally we have local teams, so across the nine markets that we spoke about we have eight local teams in each of the markets that we operate in, bar Japan, which is managed in different markets because the products are such. The second bucket is the regional team which manages regional assets and we have a regional team that does equity based in Hong Kong, and we have a regional team that does fixed income based in Singapore. I think the third team that we look at, the third pillar, is really our global team based in M&G in London, or PPM America. In terms of the operation hubs, we have a hub in Singapore which is our regional operating centre which does a lot of the back office work for both Hong Kong and Singapore. Most of the other back offices are particular to individual countries but we are putting in common processes and common systems across these which at some stage will allow us, if we can, to kind of standardise them and pull them together but at this point in time we have one regional hub in Singapore and several other back offices in the other markets.

Q: Did you mention that some of the product design is done in Singapore?

AS: Yes. We have a product development team which is based in Singapore which works with each of our markets to help design and deliver the products that we launch through the year.

Q: Hi, Farooq Hanif speaking, from Credit Suisse. Last time I looked, Japan was the only developed market where your curve is upwardly sloping, and I know you keep showing cash balances being really quite high in Asia, but they never seem to change that much, they move a little bit year to year. Do you think that will have a positive effect or negative effect in Japan, your curve, or is it irrelevant?

AS: I think the big thing that has happened in Japan in the last few years is the whole appetite for risk, and I think if you look at Japan five years ago you would see a lot of money going into postal savings and the banks. People were very shy – I think they had been burnt in the past – and I think what has happened in the last three years is the whole mentality and appetite for risk has really changed. So I don't think the shape of the curve is changing it as much as just the mentality of the consumer and the investor, and I think that's why, as Felix showed, you can see the growth in terms of the assets. You can see the growth in equity assets and the bond assets it is showing are assets that are really regular dividend paying type funds which invest all across the world and some of them are high yield funds as well. So the risk appetite has clearly changed in Japan and I think that is the biggest driver in Japan.

Q: Greig Paterson, KBW. All these numbers you are quoting, they are gross of minorities, I assume?

AS: No.

Q: You know, the profit numbers and… are they net of minorities?

AS: Correct.

Q: The numbers you put in the financials are grossed up, so you can't tie them up. Could you maybe just give us an idea of what are the minorities in the various regions?

AS: We have some joint ventures, three joint ventures: one in India where we have a 49% stake; we have a 36% stake in Hong Kong in the mandatory provident fund, and we have a 33% stake in China. So those are the three where there is a minority interest.

Q: Trevor Moss from Man Securities. One of the charts that appears quite regularly in a lot of Asian presentations, and I even remember some of the very early ones back in the 90s which I attended, the amount of cash deposits that are held in Asia is obviously a huge number; it is still a huge number now and the number hasn't moved very much in terms of percentages overall. It clearly represents a huge opportunity and it has been referred to a number of times in today's presentations, but there appears to be still a very slow cultural shift in terms of people's attitudes in Asia towards investing in high risk asset classes and I am wondering whether we are at a tipping point or whether we could come back in another five, seven years' time and we would have another similar sort of presentation with a similar quantum of cash assets sitting out there and having that as the big potential, but I was just wondering if you had a view on whether attitudes really were changing more aggressively now because I think that's where we were a few years ago but it hasn't really happened as far as I can see from the charts. The second thing really, just to round off the picture, obviously your friends on the life insurance side have given out some 2009 targets, now there haven't been any targets in that press release that I saw that related to the asset management operations. You have seen 20-something per cent compound growth since 2002 in funds under management in your Asian operations. I wondered if you had some ambition in terms of funds under management in three years' time.

AS: Can I take your first question first? It's an easier one to answer. I think it goes back to the question asked earlier. Let me answer that in two parts. The first is you have got to look at the kind of incremental flow that is coming into savings. So don't just always look at the *[inaudible 117.20]* but look at the amount of incremental money that has been generated which is going into household financial assets. So even though you are seeing a move into other assets, it is being almost swamped by an increase in other assets that are coming into the pool, so I think that is the first point.

I think the second is that even within that you can start seeing the trend, and I talked about it in one of my slides, where you can start seeing even within that overall pool of household financial assets a move to equities and a move to mutual funds, and I think it is really the beginning of an understanding and an appreciation of risk, as I mentioned in the case of Japan. I think we are seeing this across the region. Take the case of Korea, if you looked at Korea three years ago the entire industry would have had 80% fixed income funds and 20% would have been some mix of equity type funds. I think if you look at the numbers today the numbers would look very different and I think that's partly driven by the kind of products that are coming through; it's partly driven by the strength of equity markets, but it's also partly driven by the growth of banks distributing because they just provide the kind of service and advice that I think hasn't been available to customers thus far. So I think that you will see this trend continuing and I think, I do not know in five years time what the numbers will look like, Trevor, but I think our business will clearly look very different. I think in terms of your second bit on targets and ambition, I think you would know that we are not shy and we are not unambitious. I just think that we don't want to restrict ourselves by talking about one number. We want to grow faster than the markets and we think the markets will grow very fast.

Q: Bruno Paulson, Sanford Bernstein. You've mentioned obviously that the start ups have very different economics and the economics vary between the type of things the assets are invested in. Other than those two significant factors, are there significant differences in the economics between different markets and, if so, what are they?

AS: I think there are slight differences in the economics across different markets in terms of the fees you get for different products. I think markets like Korea, for instance, you would get slightly lower fees than you would get in Malaysia or you would get in India, but that is often outweighed by, for instance, the lower cost of outsourcing.

Korea, for instance, has the lowest cost of outsourcing of the entire backroom all across Asia. So you would think naturally that might be India, but actually our Korean business is the most efficient in terms of the back office. So if you would just for those two, and then look at the profit margins, you actually won't find that much of a difference across the businesses. I think while you talked about the start ups, I'm not sure you picked up what we were saying. We have been around for less than a year and we are already operational and profitable so I think some of these businesses can attain break even pretty quickly.

Q: Mikir Shah, Fox-Pitt, Kelton. Just a quick question on the cross-selling of funds. How long has that been going on for and can we expect a huge increase in this cross-selling of funds or has this been going on for quite a while – the Indian Infrastructure Fund into Japan – that's a new one, but how many other ones have you had like that?

AS: Well, I think it has been a function of a couple of things. It has been a function of a), getting our network in place and b), the structures and the regulations allowing it, but I think in the last year we have seen a lot of it going on and I think if you look at our plans for next year, you will see an increasing amount of synergy and mutual benefit between the businesses. So I think you will see much more of it going forward because now we have got the platform and, I think, the regulatory ability to be able to do that.

Q: Jon Hocking, Morgan Stanley. Ted made the point of the earnings *[inaudible 121.0]* of 100% cash but to what extend can they be repatriated back to plc and to what extent do you have to use them within local markets, maybe to fund the life business. I am just thinking, if you have got a local market, if you cannot repatriate the cash, do you use that for the life company… is it an alternative?

TP: First of all we are in a position whereby we don't have much need for the cash that we generate. We have very low capital expenditure, we don't have to service any debt. Apart from some residue capital that we need to hold in each market, which are negligible amounts in the overall scheme of Prudential, there aren't really any restrictions in repatriating capital to group.

Q: I was thinking more sort of exchange controls or…

TP: No.

AS: No more questions? Thanks you very much on behalf of the entire PCA team. Thank you very much for your attention and patience throughout the day.