



Association of Investment Management Companies

Thailand Country Report

2014 – 2015

International Investment Funds Association



1. Economic and Financial Background

Table 1 Thai Economic Performance in 2013 – 2014 and Q1/Q2 2015¹

(% YOY)	2013	2014	2015	
	Year		Q1	Q2
GDP (CVM)	2.9	0.7	3.0	2.8
Total Investment	-2.0	-2.6	10.7	2.5
Private	-2.8	-1.9	3.6	-3.4
Public	1.3	-4.9	37.8	24.7
Private Consumption	0.3	0.3	2.4	1.5
Government Consumption	4.9	1.7	3.3	4.6
Export of Goods	-0.2	-0.3	-4.3	-5.5
Volume	0.2	0.7	-2.6	-3.8
Import of Goods	-0.5	-8.5	-7.2	-10.1
Volume	1.6	-6.8	4.1	-0.3
Exchange rate (THB/USD)	32.81	32.48	32.64	33.77
Current Account to GDP (%)	-0.6	3.3	7.9	4.2
Inflation	2.2	1.9	-0.5	-1.1
Unemployment rate (%)	0.7	0.8	0.9	0.8

The Thai economic in 2014 grew by 0.7 percent with 0.3 percent growth of private consumption and a contraction of -2.6 percent of investment, owing to internal and external constraints that inhibited growth. In the first half of the year, the economy experienced zero growth as political situation hindered certain government operations and undermined the confidence of households, business and foreign tourists. An elevated level of household debt contributed to restrained consumer spending as well as to cautious lending by financial institutions. Recovery of merchandise exports was slow due to a gradual improvement in global demand. In addition, Thai manufacturers still suffered from limited production capability in high-technology products. Under these circumstances, businesses delayed production and new investment.

In the latter half of 2014, the Thai economy recovered gradually after the easing of political uncertainty. Domestic spending and the tourism sector improved, while the government resumed its normal operation. Additionally, investment in telecommunications and retail businesses gathered pace to meet the expected growing future demand. However, overall economic recovery was sluggish as merchandise exports remained weak in tandem with major trading partners' economic conditions, particularly China, Japan and Europe, while household spending was hurt by low farm income and high

¹ Source: Thai Economic Performance in Q4 and 2014 and Outlook for 2015: NESDB Economic Report

debt burden. The confidence of foreign tourists was not fully restored because many countries still maintained their travel warning advisory levels. Most businesses continued to defer investment, awaiting economic recovery and the government's infrastructure investment.

Overall economic stability was nonetheless well preserved. Headline inflation declined on account of a sharp fall in domestic oil prices, while core inflation increased due to the pass-through of higher liquefied petroleum gas (LPG) prices to food prices. At the same time, financial position of businesses and financial institutions remained strong. Private household and corporate credits slowed down, in line with the overall economic conditions and cautious lending of financial institutions, after a high rate of growth in the preceding years.

The Thai economy in the second quarter of 2015 expanded by 2.8 percent, compared with 3.0 percent growth in the first quarter of 2015 and after seasonal adjustment, the Thai economy in the second quarter of 2015 expanded by 0.4 percent from the first quarter (%QoQ SA)² because of the main drivers were the tourism sector and public spending. Private consumption slightly expanded especially consumption of necessity goods and services, reflecting purchasing power of middle and upper income consumers that remained intact but was held up by weak consumers' confidence. At the same time, the overall economy was affected by the contraction in merchandise exports due to the slowdown in demand from China and ASEAN countries. Economic stability was well maintained. Headline inflation remained negative but was likely to bottom out in the second quarter before edging up in the second half of this year. Meanwhile, the current account continued to register a surplus and the ratio of international reserves to short-term external debt remained sound.

The movements of Thai baht were driven by the political situation, signs of the U.S. economic recovery, and differences in monetary policy of major economies.

In part of unemployment, Thailand's jobless rate has held below 1 percent for the most part since 2011 and it stayed low because of structural problems as farmers that were affected by drought moved from agricultural sector to manufacturing and service sectors but in low wages.

² Source: Thai Economic Performance in Q2 and Outlook for 2015: NESDB Economic Report

2. Data on Funds under Management

Brief Statistical updates are posted by AIMC monthly at www.aimc.or.th and for more details please email aimc@ksc.th.com

General industry data covers mutual funds and unit trusts						
Type of funds	2015 (as at 31 July 2015)		2014 (as at 31 December 2014)		2013 (as at 31 December 2013)	
	Number of funds	Assets under management (in \$ M)	Number of funds	Assets under management (in \$ M)	Number of funds	Assets under management (in \$ M)
Equity funds	471	29,958	432	31,668	365	21,712
Bond Funds	553	56,973	695	54,309	671	41,399
Mixed Assets/Balanced Funds	167	3,442	157	3,357	144	2,718
Money Market Funds	34	8,853	34	9,198	33	10,223
Other (e.g. property fund, infrastructure funds, etc.)	265	21,936	261	20,369	242	17,671
Total	1,490	121,162	1,579	118,901	1,455	93,723

US\$: local currency exchange rate on July 31, 2015: 33.773 THB

US\$: local currency exchange rate on December 31, 2014: 33.113 THB

US\$: local currency exchange rate on December 31, 2013: 32.823 THB

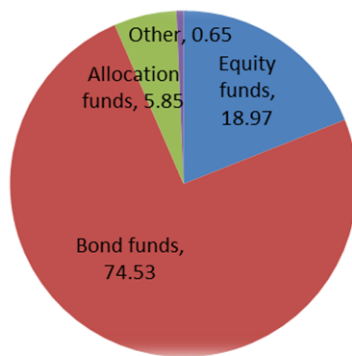
No. of asset management companies/ fund management companies (including both local-based and non-local based) managing funds: 22

3. Key trends in flows and assets under management

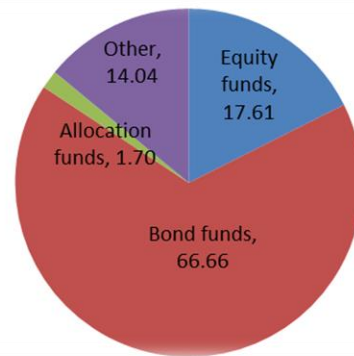
• Report of Thailand fund flows

For this information we subscribe to the data published by Morningstar Research who have agreed to publication of their data in this report.

Morningstar Category	Estimated Net Flow 2014	Estimated Net Flow 2015 YTD
Aggressive Allocation	(288,144,078)	1,754,060,807
Asia Pacific ex-Japan Equity	8,499,520,501	6,039,744,330
Bond Fix Term	(24,408,908,993)	(66,091,509,753)
Capital Protected	(81,343,902)	(12,962,458)
Capital Protected Fix Term	(6,024,726,199)	3,497,953,339
China Equity	3,037,318,122	17,169,204,918
Commodities Energy	3,761,555,459	2,965,310,006
Commodities Precious Metals	(1,111,565,765)	(849,365,189)
Conservative Allocation	1,459,771,642	2,221,863,366
Emerging Market Bond	(3,013,212,028)	(181,997,144)
Emerging Market Equity	71,602,350	(171,703,840)
Equity Fix Term	(2,320,066,992)	(921,275,412)
Equity Large-Cap	45,161,810,746	(5,237,874,787)
Equity Small/Mid-Cap	28,446,445,912	6,692,578,228
Europe Equity	13,473,195,436	8,939,653,170
Foreign Investment Bond Fix Term	(157,486,759,269)	(131,862,576,515)
Foreign Investment Equity Fix Term	13,398,841,575	5,243,550,523
Foreign Investment Miscellaneous	13,964,102,276	29,364,242,657
Global Allocation	38,056,567,609	2,840,934,920
Global Bond	8,118,180,815	(4,379,796,501)
Global Equity	2,847,335,029	1,185,546,544
Global High Yield Bond Fix Term	300,648,016,474	50,605,191,860
High Yield Bond Fix Term	79,378,855,050	(3,985,205,317)
Japan Equity	7,326,614,413	19,054,625,121
Mid/Long Term Bond	52,176,484,544	83,571,505,800
Miscellaneous	(6,540,990,035)	3,614,811,613
Moderate Allocation	(648,357,446)	(1,230,350,020)
Money Market	98,651,881,678	184,052,387,694
Property Indirect	353,324,016	7,572,056,909
Roll Over Bond	587,339,659	(7,571,890,547)
Short Term Bond	137,115,525,749	115,030,230,763
US Equity	5,199,776,970	(93,527,003)
Total	659,809,991,318	328,825,418,082



2014



2015 YTD

The majority of Thai mutual fund assets at year 2014 and 2015 were in Medium Term Fixed – Income Funds comprising 74.53 % (year 2014) and 66.66 % (2015YTD) of total Thai mutual fund assets. Equity funds are the second-largest category, with 18.97 % (year 2014) and 17.61 % (2015YTD) of assets and allocation funds are 5.85% (year 2014) and 1.70% (2015YTD) held the remainder.

Bond fund flows are typically correlated with the performance of bonds which, in turn, is primarily driven by Thai interest rate environment. In 2014, as long-term interest rates declined, bond prices, which are inversely related to interest rates, rose. This boosted returns on bonds and bond funds. Bond funds experienced net inflows of 433,259 million baht in 2014, compared with net outflows in the prior year.

In part of equity funds, foreign equity funds attracted renewed shareholder interest in 2014. Foreign funds benefited from, among other things, a worldwide rise in the price of technology stocks in the early part of 2014.

4. Product Development

• Infrastructure Fund

Infrastructure plays an essential role in facilitating economic growth, enhancing long-term national competitiveness as well as improving living standards of the public. However, as a developing country, Thailand has been facing challenges to meet the demand for infrastructure investment. Because of the government's financial constraints, private sectors have been encouraged to participate in infrastructure investment through public – private sectors partnership policy (PPP). With such a magnitude of investment, the capital market is able to give a funding access to private sectors participating in infrastructure project other than this it can mobilize fund to develop infrastructure projects while easing the government's budgeting burdens and public debts.

Key features

Key provisions of the regulations on establishment and management of infrastructure fund are as follows:

- 1) Infrastructure fund is a closed-end fund with the minimum size of THB2 billion (at least THB1 billion per project, except for electricity type, only THB500 million per project is required);
- 2) Minimum 75% of the total assets must be invested in infrastructure asset within 6 months since the fund registration or capital raising;
- 3) Infrastructure fund may invest in the following types of infrastructure: rail transportation, toll way, electricity, water supply, airport, deep seaport, telecommunication and alternative energy;
However, the abovementioned infrastructure projects must be operated for the benefit of the Thai public, and must not provide services to any customers and/or group more than 1/3 of the total capacity;
- 4) Maximum gearing ratio of 3 times;
- 5) The fund shall distribute at least 90% of the net profit to the unit holders;
- 6) Investment in a greenfield project is permissible on the following conditions:
 - if a greenfield project $\leq 30\%$ of the total assets, the fund must have minimum 500 unit holders and be listed on the Stock Exchange of Thailand.
 - if a Greenfield project $> 30\%$ of the total asset, the fund must have minimum 35 unit holders with a minimum subscription of THB10 million baht each, and must not be listed on the SET. However, once a greenfield project is completed and can generate income, the fund must be listed within 3 years.
- 7) The fund can invest directly in infrastructure project/future cash flow or indirectly by holding shares of an infrastructure company for more than 75 percent of the outstanding shares of each company.
- 8) Multi-tranche is allowed;
- 9) Certain limits on the unit holding are:
 - Unit holding or/and the group whose unit holding exceeds the one-third limit has no rights for either distribution or voting for the excessive portion;
 - Foreign unit holding limit must be consistent with that prescribed by the law governing infrastructure in which the fund invests.

Tax benefits

- 1) Tax exemption on distribution for individual investors: 10 years since the establishment of the fund (as opposed to the current rate of 10%)
- 2) VAT/SBT/stamp duty exemption (with certain conditions)
- 3) Transfer fee/ mortgage fee/ rent register fee: reduced to 0.01% of the transaction amount (Maximum THB 100,000 each)

5. Legal and regulatory developments

The key changes that have been introduced in the past year in the legal and regulatory framework for funds:

- Marketing and distribution of funds, e.g. products, fees, promotion

In 2014, the SEC amended fund advertising and promotional regulation. The new rules require the disclosure of thorough and balanced information of the fund, and designate the gift values, promotion period, use of social/electronics media and certain requirements on the advertising of trigger funds.

The advertisement and promotional regulation requires that the advertisement must clearly provide the significant fund's information such as type of fund, investment policy, and risk and return performance. The major part of any fund advertisement must also contain precise and sufficient information and must not be overshadowed by information on promotional campaign. Reward redemption campaign with credit cards is not allowed.

- Intermediaries, e.g. qualifications, conduct and sales practice, Distributors Regulation

In 2014, the SEC enacted the new rule requiring that the board of directors of all asset management directors in order to empower the board of directors to act more effectively in protecting investor interests.

Apart from independent director requirement, SEC requires all directors to attend corporate governance training course within 2016.

- Risk management

There remains unchanged in risk management where asset management companies are required to have proper policy, system, and resources dedicated to risk management and the SEC provides regular onsite audit.

- Taxation remains unchanged as follows:

At the fund level

Mutual funds receive tax exempt treatment so called EEE (E1= no tax for entry, E2 = no tax at the fund management level, E3 = no tax at the exit for retail investors.)

At investor level

Types of Income	Tax Rate
Capital Gains	
Retail Investor	Tax exempt
Institutional Investor	Corporate income tax without withholding tax
Dividends	
Retail Investor	10% withholding tax
Institutional Investor	Tax exempt if the taxpayer is a listed company and receives dividends from mutual fund by having 3 months holding periods <u>before and after</u> dividend payment
	Tax-exempt if the taxpayer is a non-listed company holding 25% or more of the votable shares of the firm issuing dividends by having 3 months holding periods <u>before and after</u> dividend payment

6. Corporate governance (PROXY VOTING)

To promote code of best practices of listed companies on the SET, which would in turn enhance the industry's management transparency and adherence to business ethical standards and practices, in a bid to foster good corporate governance of SET-listed companies so that they will accordingly improve their information disclosure and governance standards, AIMC has worked out the voting guidelines and practices at shareholders' meetings for asset management companies to use or refer to in their consideration of issues at shareholders' meetings and exercise voting rights thereon on behalf of the funds under their management. Details are as below:

General guidelines for the voting consideration

- An asset management company should vote FOR the issues that, upon consideration, benefit or are in the interests of the fund as well as the existing shareholders, retail shareholders and the public in overall. These issues include the day to day operations, in order to ensure the listed company's smooth operations.
- An asset management company should vote AGAINST the issues on which no adequate information has been obtained, or the issues considered not a benefit to or not in the interests of the fund or not related to retail shareholders or the public, especially those associated with the listed company's finance and investment. In voting AGAINST any issue, the asset management company should be careful not to perform in a manner that would influence the overall voting at the meeting.
- Its voting should be in a good manner with questions raised politely for the directors or executives of such company to give answers or explanation as proper, and with no negative impacts ensured on any involved parties at the meeting.
- An asset management company should ABSTAIN from voting on the issues considered not being in the nature that it should support, such as the issue with conflict of interest, etc.

7. Fund governance

Increase the transparency of the Fund Fact Sheet and Prospectus on Mutual Fund by providing risk asset class, credit rating of the holdings to public on a monthly basis.

8. Other major issues and developments

- Liberalization of the Asset Management Industry

The SEC is passing a new Investment Laws that include Alternatives Investment, REIT, and Leveraged Mutual Funds.

The Central bank will open up the foreign exchange control to allow individual to invest oversea.
