CFA Society Philippines

Asian Institute of Management — Gov. Jose B. Fernandez, Jr. Center for Sustainable Finance

FMAP Fund Managers Association of the Phil., Inc.

ASSESSMENT OF THE ASSET MANAGEMENT INDUSTRY IN THE PHILIPPINES

The Case of the Mutual Fund Sector

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FOREWORD

The Philippine asset management business has grown by leaps and bounds over the past few years. When I started as a young banker, most of the individual clients I dealt with simply looked for the time deposit with the highest rate. That changed over the years. As the markets developed, so did client investment preferences. Clients moved from time deposits to government and corporate bonds.

Moving forward, clients then took a large interest in equities, mutual funds, and unit investment trust funds. We know that there have been a lot of changes as to how clients invest, but what are these?

How large has the market become? What products and services are clients most interested in? This study, the first of its kind in the Philippines, seeks to answer some of these questions so that the responses may be used as input to further develop and grow the market.

We, at CFA Society Philippines, would like to thank our partners, CFA Institute, Asian Institute of Management (AIM), and Fund Managers Association of the Philippines (FMAP), for their tireless efforts in contributing to the development of this study.

Dr. Robert B. Ramos, CFA, CAIA, CIPM
President and Chairman of the Board
CFA Society Philippines

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AUM	-	Assets-under-Management
CIS	-	Collective Investment Scheme
CSR	-	Corporate Social Responsibility
ESG	-	Environmental, Social and Governance
FMAP	-	Fund Managers Association of the Philippines
ICA	-	Investment Company Act
JBF	-	Gov. Jose B. Fernandez, Jr. Center for Sustainable Banking and Finance
NAV	-	Net Asset Value
PIFA	-	Philippine Investment Fund Association
SRI	-	Socially Responsible Investments
UITF	-	Unit Investment Trust Fund
VUL	-	Variable Unit Linked

ABSTRACT

A mutual fund is defined as an investment company which pools fund from shareholders and investors to invest in various securities, including stocks, bonds, and money market instruments, among others. The Philippine mutual fund industry has undergone several developments since its inception in the 1950s. the industry has seen significant growth in terms of the number of investors and number of accounts as well as in terms of the level of professionalism and sophistication in the sector. Despite these developments in the industry, the mutual fund industry still lags behind its counterparts in the pooled investment funds category, particularly from Unit Investment Trust Fund (UITF) and Variable Unit Linked (VUL) insurance available in the market. Thus, it is worthwhile to look at the sector more closely from the perspective of the players within the industry as well as from the retail investors' point of view. The general objective of this research is to assess the status, problems, and prospects of the mutual funds sector in the Philippines. Specifically, the research sought to assess the supply and demand sides of the sector by examining the market landscape through the industry players and the awareness and perception of the retail investors. Results indicate that the industry is being dominated by two large players, namely, BPI Asset Management and Sun Life Asset Management, Inc. Furthermore, money market fund has the largest share in the total Asset-under-Management for both domestic- and foreign-denominated mutual funds. On the demand side, the major issue was the investment rate among the respondents towards mutual funds. Furthermore, students are perceived to have the lowest level of understanding of mutual funds. This low level of understanding of mutual funds explains the low penetration or investment rate among this group of respondents. With regard to the socially responsible mutual funds, the level of understanding among retail consumers is still low resulting in low anticipation of demand from the mutual fund managers. In order to address the current challenges in the industry, several strategies must be put into place. These include enhancing the accessibility of mutual funds by using digital platforms and financial technology, partnerships with private companies and government through a guaranteed investment plan, education-drive to increase awareness among the young population and provision of innovative and differentiated products.

Keywords: mutual funds, socially responsible mutual funds Asset-under-Management (AUM), awareness, perception

I. Rationale

A mutual fund is defined as an investment company which pools fund from shareholders and investors to invest in various securities, including stocks, bonds, and money market instruments, among others. The mutual funds industry in the Philippines has been dubbed as the most transparent and participative option in the country by the Fund Managers Association of the Philippines (Fund Managers Association of the Philippines, 2020).

The Philippine mutual fund industry has undergone several developments since its inception in the 1950s. This can be reflected in the various statistics published by the Philippine Investment Fund Association (PIFA). For instance, the net assets of the industry grew to 329.4 billion in 2020 from 6.1 billion in 2000 (Philippine Investment Fund Association, 2021). Furthermore, the industry has seen significant growth in terms of the number of investors and number of accounts as well as in terms of the level of professionalism and sophistication in the sector.

Despite these developments in the industry, the mutual fund industry still lags behind its counterparts in the pooled investment funds category, particularly from Unit Investment Trust Fund (UITF) and Variable Unit Linked (VUL) insurance available in the market. Some of the roadblocks to the eventual success of the mutual fund industry include the challenging regulations that govern the sector, which limit some of the offerings and operations of the mutual fund companies in the country. As a result, it is more difficult to push mutual funds to potential investors.

With this, the CFA Society Philippines ("Society") in partnership with Fund Managers Association of the Philippines and Asian Institute of Management Gov. Jose B. Fernandez, Jr. Center for Sustainable Finance proposed to conduct an in-depth study on the Philippine asset management industry, primarily focusing on the mutual fund sector in the country. This is the second phase of a series of studies to assess the Philippine asset management industry, following the assessment of the UITF sector in the country.

With the growing prospect for mutual funds in the Philippines and the challenges faced by the industry, it is worth taking a closer look at the industry from the perspective of both the mutual fund providers and retail investors and to assess the current status, problems, and future direction of the sector while comparing its performance with the UITF.

II. Objectives

The general objective of the research is to assess the status, problems, and prospects of the mutual fund sector in the Philippines. Specifically, the study aims to:

1. evaluate the market landscape and key characteristics of the mutual fund sector in the Philippines;
2. determine current problems faced by the key players of mutual fund in the Philippines;
3. assess the profile of the mutual fund investors in the Philippines;
4. evaluate the level of understanding among Filipino retail investors about mutual funds;
5. assess the perception among investors and noninvestors towards mutual fund;
6. determine the level of awareness of investors towards socially responsible mutual funds; and
7. recommend strategies to address the challenges and weaknesses of the mutual fund sector in the Philippines.

III. Research Design and Methodology

A descriptive research design is used to assess the current status, problems, and prospects for the mutual fund sector in the Philippines. Data were generated from primary and secondary sources.

With the objective of assessing the supply side of the industry, a survey was developed and distributed among the nine mutual fund providers in the country. The survey focused on the current status, performance, client profile, mutual fund team, and problems encountered.

Table 1. List of Mutual Fund Providers in the Philippines

1	ATR Asset Management
2	CLIMBS Share Capital Equity Investment Fund Corporation
3	Sun Life Asset Management, Co. Inc.
4	MBG Investment Management, Inc.
5	COL Investment Management, Inc.
6	PhilEquity Management, Inc.
7	BPI Investment Management, Inc
8	First Metro Asset Management, Inc.
9	Cocolife Asset Management Company, Inc.

In addition, to analyze the supply side of the mutual fund sector, we developed a survey focusing on the awareness, perception, and attitude of Filipino retail investors. A convenience sample of 200 respondents was targeted, and 257 responses were collected through the online survey distribution. Convenience sampling was used because of the absence of data on the total population; thus, those respondents within the network of the research team and the CFA Institute were contacted. The results may not be generalized to the entire population of Filipino adults, but they can be indicative of the behavior of such group of individuals. The sample respondents consist of full-time employees, part-time employees, entrepreneurs, students, retirees, and unemployed individuals.

We then analyzed these data in regard to macroeconomic indicators to evaluate the significant factors affecting the industry. The assessment of the macroeconomic environment, along with the information gathered from the survey and historical data, then were integrated to evaluate the overall outlook for the industry in the next five years.

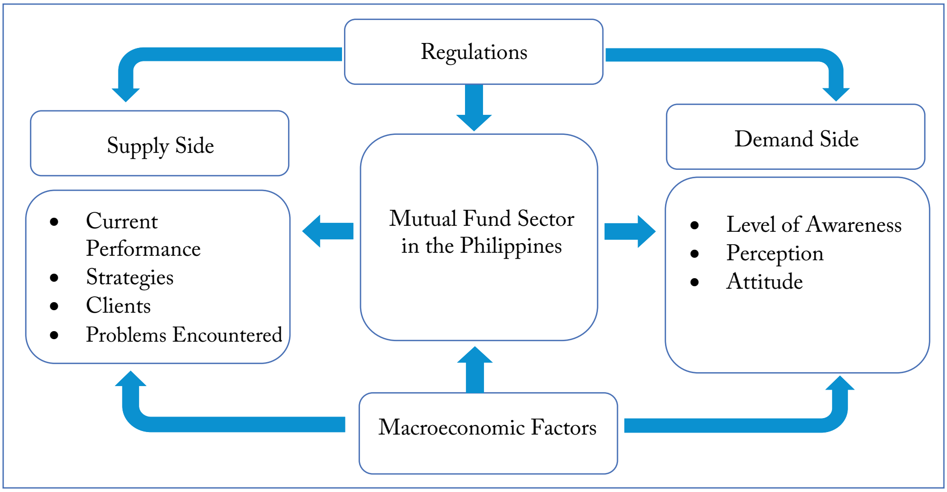

Figure 1. Analytical Framework

IV. Literature Review

A mutual fund is defined as management companies that invest in diversified portfolios of assets. These funds are "open-ended" in that the investor can redeem their shares at net asset value (NAV) at any time upon the request of the shareholder (Khorana, Servaes, & Tufano, 2005). It is also defined as a "professionally managed type of collective scheme that pools money from many investors and invests it in stocks, bonds, short-term money market instruments and other securities" (Jain & Gangopadhyay, 2012). According to the Investment Company Institute as cited by Parida and Tang (2018), close to 56 million American households or 96 million individuals invested a total of US$16 trillion in US-registered mutual funds in 2016. The US Mutual Fund industry grew to US$21.4 trillion in mid-2020 with 45.7% of American households or 102.5 million individuals investing in mutual fund (Investment Company Institute, 2020).

Investors typically prefer investing in mutual funds for a number of reasons. Investing is time-consuming because it requires extensive research about the performance of the company, and investors would rather choose the mutual funds route because the scheme shoulders the responsibility of due analysis and research. Furthermore, mutual funds, including exchange-traded funds have become a popular choice among retail investors because these provide professional money management, asset liquidity, and benefits derived from diversification at a relatively low cost (Mugerman, Hecht, & Wiener, 2019)

A. Factors Affecting Mutual Fund Performance in Various Countries

Several studies have been conducted in relation to the performance of the mutual fund industry in several countries. The 2020 Investment Company Fact Book identified the factors influencing the investor demand for mutual fund. These include the funds' ability to assist the investors in achieving their investment objectives, continued long-running investing trends, and portfolio rebalancing.

Although the mutual fund section is growing in most industrial countries, the industry is still in the early stages in developing and emerging countries. Despite the growing interest in mutual funds among institutional and retail investors, limited studies have been conducted on the performance of mutual funds.

Research on the opportunities and challenges in the Indian mutual fund industry was conducted by Kale and Panchapagesan in 2012. The results showed that mutual funds have not been the investment of choice for Indian households. Real estate and gold remained the investment of choice among the Indian retail investors.

Similarly, Kesavaraj (2013) came up with related findings on the awareness and perception of Indian retail investors toward various types of mutual funds. According to their results, Indian retail investors have low awareness of the various mutual fund products, the types of mutual fund schemes, and the risk associated with the mutual fund products. The recommendations of the study included provision of more information on the various mutual fund offerings and opening more distribution centers to improve accessibility and expand the market reach of mutual fund companies.

Kaniel and Parham (2017) conducted a study on the impacts of media attention, specifically the Wall Street Journal Category Kings, on the mutual fund investment decisions of investors. The results indicated that a single mention in the prominent Wall Street Journal Category Kings translated to a local average increase of 31% in subsequent quarterly capital flows, with a significant spillover effect to the other funds of the same complex. This translates to increased fees amounting to US$36 million. Appearance on a similar yet less popular rankings, however, did not result in additional flows. Thus, the key driver of the increased capital flows from the investors specifically would be the appearance in the Wall Street Journal Category Kings rankings.

A report published by Deloitte Center for Financial Services (2014) identified focus areas of the mutual fund sector in 2015. These areas are distribution and technology, product revenue, governance and conflicts, and operational innovation. The drive for global distribution by US fund managers continually increased and, at the same time, fund managers from abroad viewed the US market as attractive. Furthermore, the use of data analytics combined with human touch was seen as a main driver for the mutual segment. Thus, a mix of digital and personal strategies are crucial to succeed in the industry. Emerging investment options for mutual funds that are outside the traditional stock and bond mutual funds were seen as future directions for the industry. In terms of governance and conflicts, the trend was toward more creative risk management strategies, including new product structures and forming different business partnerships. Finally, for operational innovation, providing better customer experience was considered to be crucial for the industry, which required the use of a digital strategy and social media as well as mobile devices to reach customers.

Deloitte Center for Financial Services also published reports on the investment management outlook for 2019, 2020, and 2021, which outlined the key trends and strategies for the sector. In 2019, it was identified that one of the game changers in the industry included diverging customer preferences wherein it was anticipated that most of the millennial and gen Z population will hold a significant share of investable assets brought about by intergenerational wealth transfer. This group of investors would prefer engaging with online and mobile channels and 24/7 access to investment advice on smart devices. Furthermore, tech-savvy firms were expected to put pressure on traditional firms. These tech savvy firms were anticipated to provide low-cost services combined with digital-age capabilities targeted to build relationships with the millennial and gen Z groups. With this, other important strategies predicted in 2019 included differentiation through customer experience and the redesign of customer platforms (Deloitte Center for Financial Services, 2018).

For 2020, Deloitte Center for Financial Services predicted that the trends identified in 2019 would continue in 2020. The report highlighted the Asian region as a good opportunity for investment managers. This was driven by major demographic shifts and an improved regulatory climate in the region. Creating new products for the industry also was seen as a driver for success in the sector. These include products focusing on sustainability, market volatility, and megatrends. Similarly, better customer experience and engagement also was highlighted in the 2020 outlook (Deloitte Center for Financial Services, 2019).

The 2021 outlook centered how the investment management industry thrived and recovered in a pandemic and post-pandemic world. Some of the perspectives include creating a diverse workforce and managing a return to the workplace following the COVID-19 pandemic, controlling operational change, and meeting customer demands digitally. Digital transformation was seen as an element in most investment management firms specifically in client experience. In fact, more than half of the industry players indicated that they would develop intelligent chatbots to support high-volume online interactions and would build digital relationship management system to improve customer experience (Deloitte Center for Financial Service, 2020).

With the outbreak of the global COVID-19 pandemic, it was forecasted that the pandemic would put pressure on the global mutual funds industry. There would be downward pressure on fees, reduced profit margins, and changing investor preferences. Another anticipated trend in the US mutual funds industry is the continuous consolidation of mutual fund companies, which will lead to closure of some providers. Among the strategies suggested to survive the industry are strategic positioning by developing more innovative and differentiated products, technology transformation, rethinking the workforce specifically with the onset of remote workplace, and providing value-for-money products to investors (PwC, 2020).

B. Socially Responsible Mutual Fund

Another trend in the global mutual fund industry is the prevalence of socially responsible investments (SRI). SRI is defined as an "investment process that involves identifying companies with high corporate social responsibility (CSR) profiles where the latter are evaluated on the basis of environmental, social and governance (ESG) criteria" (Auer & Schumacher, 2015, p.1). Some of the topics related to ESG include climate change, diversity and inclusion, human rights, shareholders' rights, and compensation structures. More investors are becoming concerned about the impact of their investments on other nonfinancial areas and would rather obtain good financial performance without sacrificing other ESG criteria. In the United States alone, the value of ESG-oriented funds was recorded at US$26 billion in 2019 and was expected to accelerate and reach US$30 billion by the third quarter of 2020 (Baghai, Cho, Erzan, & Kwek, 2020) . Furthermore, it was forecasted that the total assets of ESG-based funds will grow at an average of 10% annually between 2019 and 2025 (PwC, 2020).

Approaches to ESG investing include exclusionary investing, inclusionary investing, and impact investing. Exclusionary investing, also known as SRI, refers to investment strategies wherein investments in industries or companies that do not meet ESG criteria are screened out. Inclusionary investing, in contrast, refers to the investment strategy that aims at investment returns by constructing a portfolio based on ESG criteria alongside traditional financial analysis. Impact investing refers to the investment strategy that seek to generate positive social and environmental impact while achieving a financial return. As of 2019, the total NAV of ESG-related investments in the United States amounted to US$321.4 billion offered by around 511 mutual fund and exchange-traded funds (Investment Company Institute, 2020).

Watson and Hagler (2021) published a report on the ESG potential and how mutual fund boards can manage risks and seize opportunities. The report outlined the challenges for mutual fund directors in relation to ESG issues. These include reputational risk associated with proxy voting, lack of rigor in incorporating ECG factors into the investment process, lack of quality ECG data to use in developing products and services, mis-marketing of ESG products, lack of compliance with evolving ESG-related laws and regulations, third-party ESG-related risk, inability to capitalize on ESG growth, lack of board reporting and oversight, misalignment between sponsors and funds, and substandard ESG disclosures.

Several studies have been conducted on socially responsible mutual funds, but these are mostly concentrated in the United States and global context. Moreover, these studies focused on comparing SRI mutual funds with conventional mutual funds. The results of the study of Auer and Schumacher (2015) supported earlier studies finding that the risk-adjusted returns of socially responsible mutual funds were not significantly different from conventional fund returns. Thus, there seems to be no advantage or disadvantage on investing on socially responsible mutual fund based on the results of the study.

Steen et al. (2019) conducted a similar study and assessed the relationship between Morningstar's ESG ratings and the performance of 146 mutual equity funds in Norway. The underlying hypothesis was that the funds with the highest ESG ratings are associated with superior performance as compared with funds with lower ratings. Results suggested that there are no significant differences between the returns or volatility of high- or low-ESG-rated portfolios.

Thus, the findings implied the lack of rewards from screening for sustainability.

A similar study was conducted by Das et. al. (2018) on the relationship of ESG ratings and the performance of socially responsible mutual funds from 2005 to 2016. Results were consistent with other studies that found that socially responsible mutual funds underperformed in the market over the study period. But it was noted that investors who invested in socially responsible mutual funds are not really concerned in outperforming the market. Rather, they are more concerned about sustainable or socially responsible motives.

Reidl and Smeets (2017) looked at why investors hold socially responsible funds. The study aimed to investigate the role of financial and social motives in holding socially responsible funds. Based on the results, the investors' social intrinsic preferences and social signaling were identified as major factors in determining the likelihood of holding socially responsible funds. In terms of return expectations, most of the socially responsible investors expect that socially responsible funds will earn lower returns as compared with conventional funds. Thus, those investors with a strong social motivation were willing to forego financial returns in exchange for conformance with their social preferences.

Wimmer (2013) assessed the persistence of ESG-scores in socially responsible mutual funds. Results showed that investors have a limited understanding of socially responsible mutual funds and just aimed to invest in firms with a high corporate socially responsible profile. Furthermore, the research suggests that SR mutual fund managers also showed a lack of appreciation for CSR issues due to the fact that most SR mutual fund managers follow specific asset selection policies that filter out improper assets in the first stage while performing strictly financial optimization in the second stage.

A similar study was conducted by Muñoz et al. (2014) on the assessment of financial performance and managerial abilities of environmental mutual funds. A sample of 107 green funds from US and European markets were analyzed and compared with conventional mutual funds. The managerial abilities of mutual fund managers were also evaluated in terms of stock-picking and market-timing skills. Results indicated that green funds did not perform worse than any other forms of socially responsible and conventional mutual funds. In the case of US Global funds, however, conventional mutual funds performed better than the green fund counterpart. In terms of managerial abilities, green fund managers are unable to successfully implement stock-picking and market-timing abilities.

Furthermore, Pastor and Vorsatz (2020) assessed the performance and flows of mutual funds in the United States during the COVID-19 crisis. Based on the results, funds with higher sustainability ratings performed better during the crisis. In addition, funds with higher sustainability ratings were associated with larger net flows during the crisis. Primarily, the effect of sustainability in larger net flows was primarily driven by the retained concern of people for environmental issues even with the ongoing health crisis.

C. Asian Mutual Fund Industry

The mutual fund industry in Asia has seen tremendous growth in terms of value and the number of funds in the past decades. The Asian mutual fund sector, however, still lags behind and remains small compared with the highly developed financial markets, such as those in Europe and the United States. Furthermore, the Asian mutual fund industry is highly dependent on capital flows from industrial countries; thus, any disturbances to the financial conditions of these markets would have a negative effect on the Asian mutual fund industry (Premaratne & Mensah, 2014).

In 2004, the Asian mutual fund industry recorded a total of $1,184 billion in net assets with Japan ($548.8 billion), Singapore ($349.2 billion), and Korea ($180.7 billion) contributing the highest NAVs (Walter & Sisli, 2007). As cited by Premaratne and Mensah (2014), the Investment Company Institute has estimated that a total of 61,855 funds in Asia have $21,808,844 billion in total assets. It grew to 73,243 funds with $26,837,407 billion in total assets in 2012. As of 2013, 49% of Asian mutual funds are invested into equity, 17% in money market funds, and 11% in fixed income. This is proportional to the global distribution of funds, which is composed of 41% in equity, 26% in bonds, and 17% in money markets. Thus, Asian mutual funds are quite similar to the rest of the world in terms of preference for equity funds (Premaratne & Mensah, 2014).

The existing body of literature related to mutual funds is focused more on the performance of the industry in industrial markets, such as those in the United States and Europe. Only a few studies tackled the assessment of the industry in the Asian setting. The research of Premaratne and Mensah (2014) evaluated the performance of mutual funds traded in Singapore, Malaysia, Hong Kong SAR, and the Philippines stock exchanges from January 2000 to April 2013. The research answered several questions, including the factors affecting the performance of Asian mutual funds. Based on the results, it was identified that the total assets of the industry vary from US$12,561.40 million in the Philippines to US$341,811.70 million in Singapore. Hong Kong SAR has the largest number of funds at 1,013 with a total asset of US$227,041.20 million. In terms of average fund size, the industry varied between US$64.2 million in Malaysia and US$474.7 million in Singapore. Regarding asset allocation, equity funds dominate the industry in markets such as Singapore (74.9%), Hong Kong SAR (44.2%), and Malaysia (37.6%). Conversely, bond funds dominate the Philippine mutual funds market with a 41.7% share in 2013. Furthermore, the results indicated that Asian funds generally underperform their benchmarks. Timing ability was evident in equity funds in Hong Kong SAR, Malaysia, and the Philippines, whereas it was lacking in Singapore equity and all-funds portfolios. Furthermore, response to momentum stocks was found to be negative in Asia. Lastly, it was concluded that fund managers in Asia must adopt more active strategies to satisfy investors.

Qureshi et al. (2016) conducted a similar study on the market performance of mutual funds in ASEAN markets. The research aimed to fill the gap in existing literatures on the relationship of mutual funds with market performance variables in five ASEAN countries: Malaysia, Indonesia, Thailand, Philippines, and Singapore. They evaluated a sample of 1,863 equity mutual funds, 2,410 balanced mutual funds, 1,047 bond funds, and 226 money market funds from 2001 to 2015.

Using a panel vector autoregression model, it was identified that equity and balanced funds have a positive causal relationship with market returns, whereas money market flows have a negative causal relationship with the same variable. Furthermore, results also indicated that bond and money market flow have a positive association with stock market volatility.

Na Lamphun and Wongsurawat (2012) conducted a study on mutual fund fees and expenses in Thailand. They provided a detailed overview of the Thailand mutual funds industry. As of 2019, the members of the Association of Investment Management Companies of Thailand managed more than 1,838 funds with a total asset-under-management (AUM) of US$185.16 billion. This also translates to 6.8 million mutual fund accounts or 6 mutual fund accounts for every 100 bank accounts in Thailand (Association of Investment Management Companies, 2021)

D. Philippine Mutual Fund Industry

Several studies were conducted in relation to the Philippine mutual funds industry. Almonte and Kalayaan (2013) measured the risk-adjusted performance of 14 peso-based equity and balanced funds in the Philippines for the period of January 2010 to December 2012 using the Treynor, Sharpe, and Information ratios. Results showed that benchmark returns as the equity part of the portfolio increased. The overall top performer in equity funds was First Metro Save and Learn Equity Fund, Inc. In the case of balanced funds, the overall leaders were First Metro Save and Learn Balanced Fund, Inc. The overall underperformer for equity funds was United Fund, Inc., and for balanced funds, the overall underperformer was the ALFM Growth Fund, Inc.

An assessment of the UITF industry in the Philippines was conducted by Gutierrez (2020). Results indicated gaps between the demand side and supply side of the sector, specifically the younger segment of the population had a low awareness toward UITF. Even those who are currently investing in UITF perceived to have low understanding about the investment product. Thus, some recommendations include (1) information and education drive on UITFs; (2) utilizing the digital platform to make UITFs more accessible to retail investors; (3) expanding the distribution channel to reach a wider segment of the market; (4) improving relationships between the UITF marketing personnel and retail investors; (5) product differentiation to address competition among UITF providers; and (6) an improved incentive system to increase the motivation among UITF marketing personnel to understand the products as well as relate to clients better.

The mutual fund industry in the Philippines is primarily regulated by the Securities and Exchange Commission with RA 2629, otherwise known as the Philippine Investment Company Act (ICA) enacted in June 1960. The act was designed to ensure investor rights protection. Among the important aspect of the act are stringent adherence to the Investment Policy by prohibiting activities, such as borrowing of money, issuance of senior securities, underwriting of securities issued by other companies, and purchase or sale of real estate or commodities. Similarly, the act requires that the securities issued by the investment companies must be registered under the Securities Regulation Code.

Furthermore, ICA requires the investment companies to adhere to specific standards, such as regular public disclosure, investment policies and objectives, and pricing and fees. The Implementing Rules and Regulations (IRR) of the ICA was released by 1989 and was subsequently revised in 1999. The revisions include changes in organization and capitalization requirements, sale of securities, investment of the fund, redemption of the fund, redemption of securities, required net worth of investment managers, and frequency of submission of reports. In 2018, the IRR of the ICA was further revised to align the rules with the global standards allowing the investment companies to be competitive globally. The changes include the addition of the word "fund" in the corporation's name, minimum subscribed capital of 50 million , availability of a prospectus, initial minimum and subsequent investment, and allowance of shelf registration program (Fund Managers Association of the Philippines, 2020).

With the aim of standardizing the regulatory framework governing the investment funds in the Philippines, House Bill 310, otherwise known as the Collective Investment Scheme (CIS) Bill, was filed in the House of Representatives in December 2018. The proposed law aimed to level the playing field and provide uniform tax and regulatory framework for all CIS products offered in the country, which include UITF, mutual fund, and variable universal life insurance policies. In addition, the proposed law also envisions to provide flexibility in accommodating new investment products that foreign markets may come up with. Lastly, the proposed CIS law was envisioned to set the legal framework for new investment products, including exchange-traded funds, real estate investment trusts, and special purpose entities or trust as means to raise capital for infrastructure projects (Lim, 2017). Unfortunately, as of June 2021 , there is no update yet on whether the bill has been passed into a law in the Philippines.

Despite the growing interest in mutual funds and socially responsible mutual funds in the Philippines, little research has been conducted that examines both the supply and demand side of the investment vehicle. Thus, it would be worthwhile to investigate the status, problems, and prospects of the industry in a developing country, such as the Philippines.

V. Results and Discussion

A. The Mutual Fund Industry in the Philippines

As of the end of 2020, nine mutual fund providers in the Philippines were offering 65 types of funds grouped into general categories, including equity funds, balanced funds, bond funds, money market funds, and feeder funds. Information on the AUM of the mutual fund providers in the Philippines was gathered through an online survey as well as from secondary sources, specifically from the PIFA database. The Philippine peso-denominated mutual funds amounted to a total AUM of Php329.4 billion as of the end of 2020. Among the different types of mutual funds, the money market dominated the sector accounting for 39.2% or Php129.0 billion as of the end of 2020, followed by equity fund with 34.1% or Php112.4 billion.

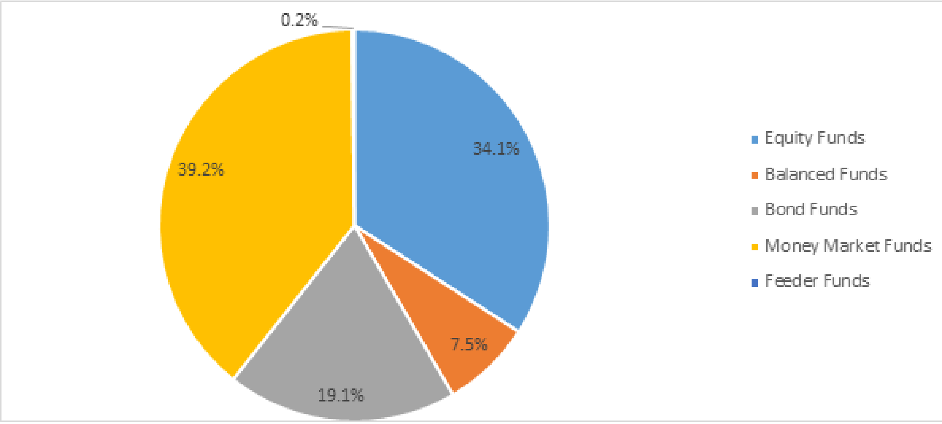

Figure 2. Breakdown of Philippine Peso-Denominated Mutual Fund AUM by Type of Mutual Fund

In terms of mutual fund providers, BPI Investment Management, Inc. dominated the industry with a 49.8% share of the total AUM, amounting to Php160.4 billion for the Philippine-peso denominated mutual fund as of the end of 2020. This was followed by Sun Life Asset Management Co., with 36.8% share to the industry's total AUM.

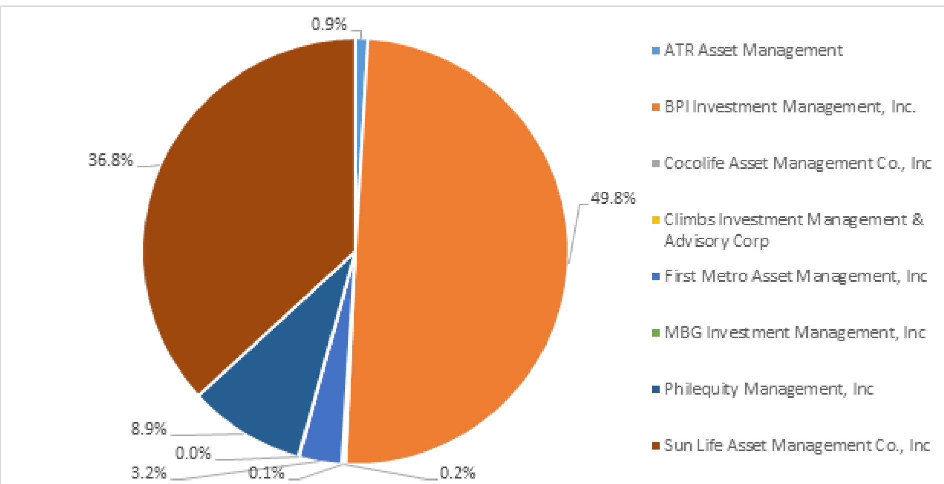

Figure 3. Breakdown of Peso-Denominated Mutual Fund AUM by Mutual Fund Provider

Additionally, the total AUM for the foreign-currency-denominated mutual funds amounted to Php71.0 billion as of the end of 2020. Similar to the Philippine peso-denominated mutual funds, the money market funds dominated the total AUM of the foreign-currency denominated mutual funds with 63.1% share or Php44.8 billion. In terms of mutual fund providers, BPI Investment Management, Inc. leads the industry, with a 62.1% share of the total AUM of foreign-currency-denominated mutual funds.

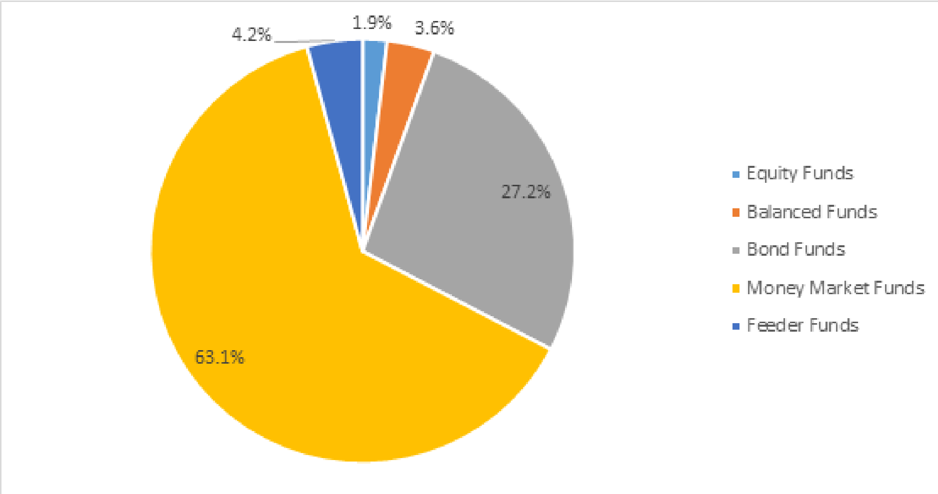

Figure 4. Breakdown of Foreign-Currency-Denominated Mutual Funds AUM by Type of Mutual Fund

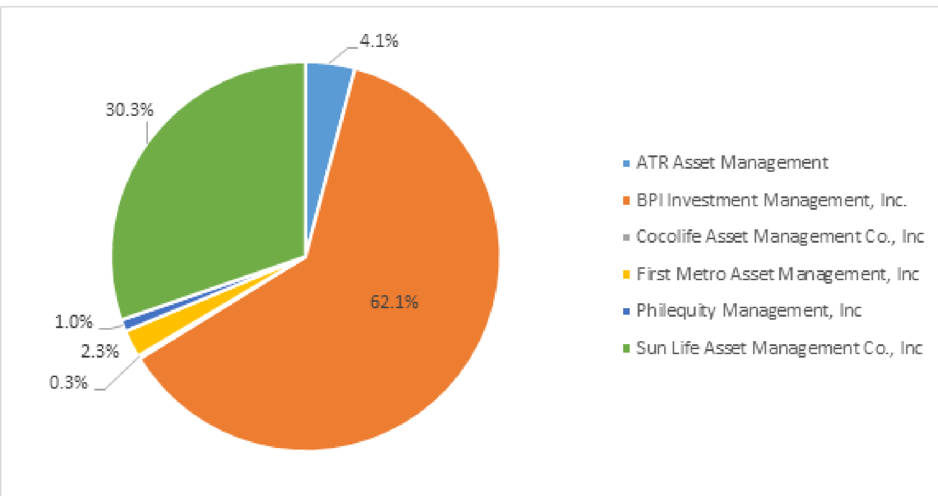

Figure 5. Breakdown of Foreign-Currency-Denominated Mutual Fund AUM by to Mutual Fund Provider

In terms of historical performance, the mutual funds sector in the Philippines, exhibited positive growth from 2016 to 2020. The total AUM of the Philippine-peso-denominated mutual fund realized an average year-on-year growth of 10.4%. The positive growth in the industry's total AUM from 2016 to 2020 was primarily attributed to the positive average year-on-year growth of money market funds, which realized the highest year-on-year growth of 81.5%, and equity funds, which posted an average year-on-year growth of 5.7%. In contrast, bond funds realized the highest year-on-year decline of 8.0%, followed by balanced funds with a 6.4% average year-on-year decline. The historical performance of mutual fund is quite consistent with the trend in performance of UITF from 2016 to 2018, wherein all the types of funds experienced a decline in value.

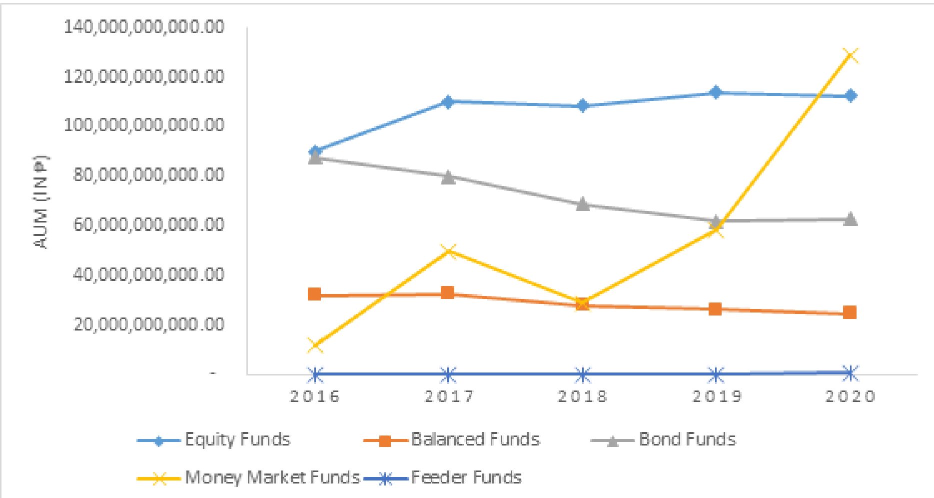

Figure 6. End-of-Year AUM of Php-Denominated Mutual Funds (2016–2020)

In terms of AUM composition, the equity fund dominates the total AUM of the Philippine peso-denominated mutual funds, with an average share of 40.1% from 2016 to 2019. However, money market fund's share to the industry's total AUM grew in 2020, which made it the dominant fund in the sector's total AUM.

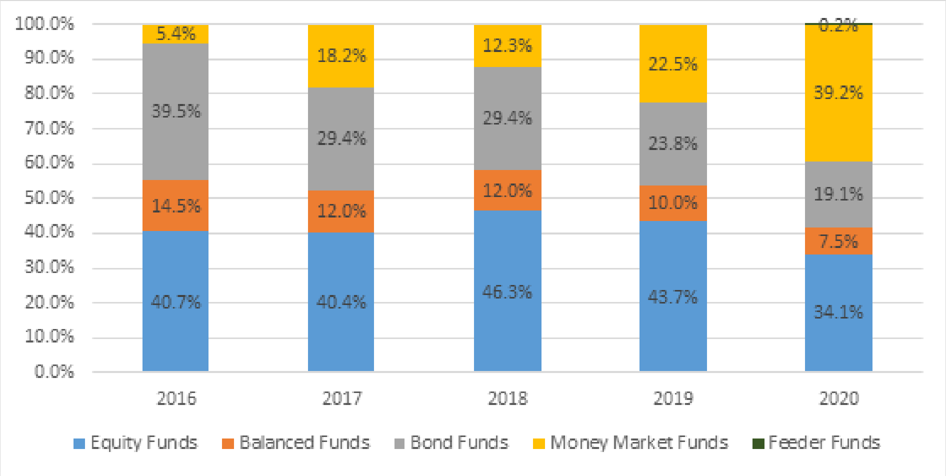

Figure 7. Breakdown of the Total AUM of Php-Denominated Mutual Funds (2016–2020)

Consistent with the growth in total AUM, the number of accounts also realized positive growth from 2016 to 2020. It realized an average year-on-year growth of 11.6% over the same period, with money market funds driving the positive growth, with an average year-on-year growth of 77.1%, followed by equity funds with an average year-on-year growth of 12.6%.

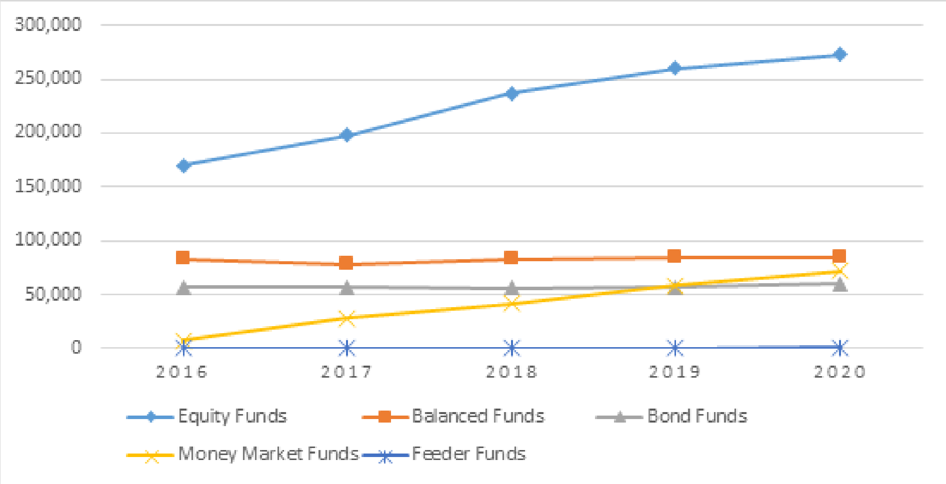

Figure 8. Number of Php-Denominated Mutual Fund Accounts by Mutual Fund Type (2016–2020)

In terms of the foreign currency-denominated mutual funds, the sector's AUM was able to realize an average year-on-year growth of 35% from 2016 to 2020. The positive growth was driven primarily by money market funds, which recorded an average year-on-year growth of 10586%, followed by feeder funds with 287% average year-on-year growth, and equity funds with an average year-on-year growth of 68%. Contrary to the Philippine peso-denominated mutual funds, the foreign-currency-denominated bond funds realized a positive year-on-year growth of 1.6%. Balanced funds, however, consistently realized a negative growth over the same period with an average year-on-year decline of 4.5%

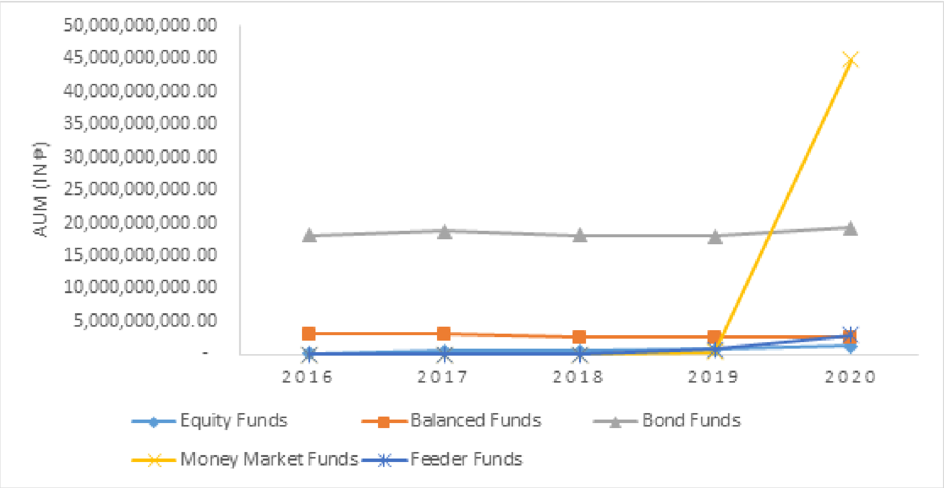

Figure 9. End-of-Year AUM of Foreign-Currency-Denominated Mutual Fund (2016–2020)

In terms of mutual fund composition, bond funds dominated the total AUM with an average share of 72.2% from 2016 to 2019. Similar to the Philippine peso-denominated mutual funds, however, money market funds took over as the highest contributor to the sector's AUM by 2020.

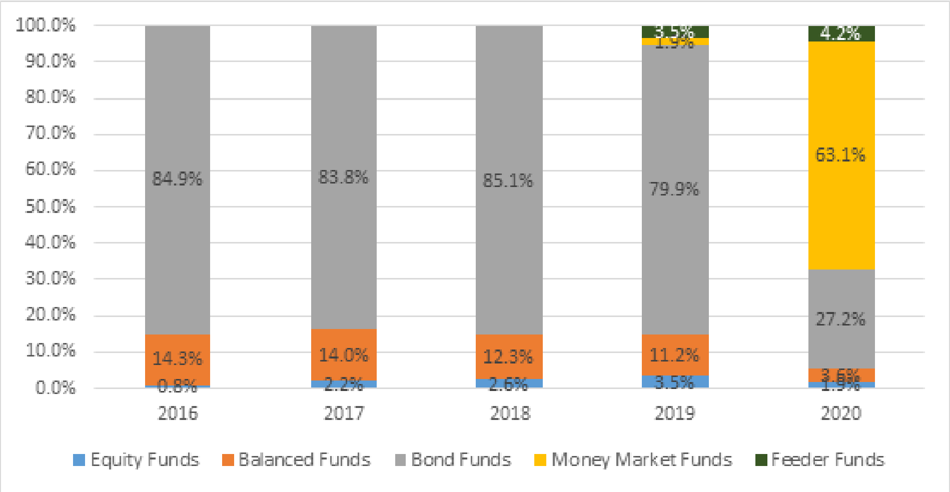

Figure 10. Breakdown of the Total AUM of Foreign-Currency-Denominated Mutual Funds (2016–2020)

Similarly, the number of accounts also realized a positive growth over the same period with an average year-on-year growth of 4.5%. The main driver of the increase in accounts were the money market funds, with an average year-on-year growth of 300%, feeder funds, with an average year-on-year growth of 213% and equity funds with 87%.

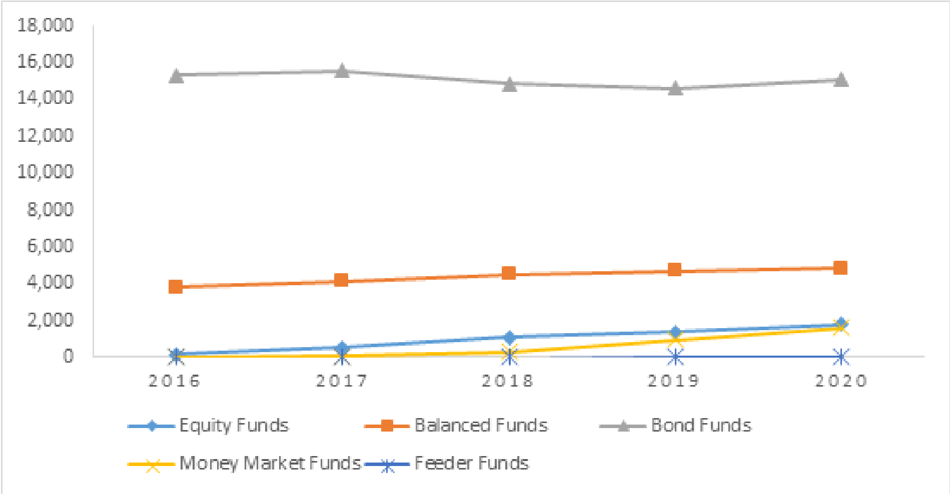

Figure 11. Number of Foreign-Currency-Denominated Mutual Fund Accounts by Mutual Fund Type (2016–2020)

The dominance of the money market funds in 2020 was primarily driven by the impacts of the COVID-19 pandemic on the behavior of investors as well as to the performance of Philippine businesses in 2020, which directly affected the performance of the financial market, particularly the stock market.

B. Status and Performance of Mutual Fund Entities in the Philippines

To further assess the current status of the mutual funds sector in the Philippines, a survey was conducted among the mutual fund providers in the country. All nine members of the PIFA responded to the survey. The respondents were mostly either the president or the chief investment officers of their respective financial institutions.

The mutual fund providers offered a variety of mutual fund products focusing on the basic types, including the equity fund, money market fund, bond fund, and balanced fund. Additional types of funds offered include feeder funds. Furthermore, 77.8% of the respondents offered mutual fund products in Philippine peso and US dollar, while the remaining 22.2% offered products only in Philippine peso.

Table 2. Types of UITF Products Offered by the Respondents

Type of Fund	Mutual Fund Providers Offering This Fund (%)
Equity Fund	100.0%
Bond Fund	66.7%
Balanced Fund	55.6%
Money Market Fund	44.4%

The average term of the mutual funds the respondents offer varied, with 44.4% offering mutual funds with an average term of more than three years, whereas 33.3% said that the average term of their mutual fund offerings ranged from one to three years. The average annual return varies according to the type of fund, with equity funds having the most variation.

Table 3. Average Annual Return of Mutual Fund Offerings

Type of Funds	Average Annual Return		
	0–5%	5–10%	10–15%
Money Market Funds	100.0%		
Balanced Funds	60.0%	40.0%	
Bond Funds	50.0%	50.0%	
Equity Funds	33.3%	33.3%	33.3%

In terms of the main distribution strategy employed by the mutual fund providers, 66.7% of the respondents cited that they use their own private networks to reach their clients, 55.6% used digital or mobile strategies, while 44.4% used their retail locations and one-on-one referrals to reach their clients. Other distribution strategies cited by the respondents include partnerships with other financial institutions. This is in contrast with the case of UITF sector, wherein 82% of the providers rely on their bank branches to reach their investors and only 24% use digital or mobile strategies as their main distribution strategy. The increase in digital or mobile strategies in the case of the mutual fund providers might be their response to effect of the COVID-19 pandemic, which resulted in limited movement of people and increased the use of mobile strategies and the internet for transactions.

Table 4. Main Distribution Strategy Used by the Mutual Fund Providers

Main Distribution Strategy*	Percentage
Private networks	66.7%
Digital/mobile	55.6%
Retail location	44.4%
Oneon-one referrals	44.4%
Other	22.2%

**multiple responses*

The respondents were also asked about the contribution of the various types of clients to their AUM. Retail investors dominated the mutual fund providers, contributing an average of 53.0% to the fund's AUM, followed by institutional investors contributing an average of 37.4% to the fund's AUM, and private banks contributing an average of 9.4% to the fund's AUM.

Table 5. Percentage Distribution of AUM by Client Type

Type of Client	Average Percentage Distribution
Retail Investors	53.0%
Institutional Investors	37.4%
Private Banks	9.4%
Other	0.3%

The respondents were also asked about the characteristics of the majority of their retail investors in terms of sociodemographics, investment profile, and risk appetite. Because multiple responses were allowed, responses did not add up to 100% for the variables, including age, profession, risk appetite, and primary reason for investing. When respondents were asked to characterize the majority of their clients in terms of these variables, some provided multiple answers and, to ensure academic integrity, the researcher included all responses, and hence the distribution.

The average number of clients a mutual fund provider has is 52,708, with Sun Life Asset Management Co, Inc. having the highest number of clients at 247,618 and MBG Investment Management, Inc. having the lowest number of clients at 82. COL Investment Management, Inc. currently has not started commercial operations; thus, they did not have records of client profiles.

In terms of annual income class, the clients are distributed from Class A to Class D, with a large number of clients clustered in Class A and Class C. In terms of age group, 77.8% of the respondents mentioned that the majority of their clients are between 35 and 50 years old. One firm mentioned that two age groups, specifically 23- to 34-year-olds and 45- to 50-year-olds, dominate most of their clients.

Two firms had multiple responses in terms of profession and risk appetite, whereas one firm had a multiple response for investing experience. With regard to profession, the dominant group among the respondents were full-time employees. The income class and age characteristics of mutual fund investors are quite similar to the UITF investors. This is indeed reflective of the fact that Filipino investors do not really start at a young age, but most start investing when they start working or when they reach the age of 30. This result, however, also reflects that the trust entities do not focus on the younger segment of the population.

In terms of investing experience, the majority of the clients are clustered into those with some experience, meaning they have prior experience in indirect investments, such as mutual funds, pooled funds, or VUL funds, and have wide experience, meaning they have extensive prior experience in investing in a range of financial instruments, including stocks and bonds. Similarly, with regard to investing horizon, 4.44% of the respondents indicated that their clients prefer medium-term investments. Lastly, 66.7% of the mutual fund providers surveyed mentioned that the main purpose of investing among their clients would be for growth of funds.

The profile of the mutual fund retail investors from the perspective of the mutual fund providers also reflects the profile of UITF investors from the perspective of the banks. For instance, in terms of annual income, the same distribution holds true for both mutual funds and UITF. Furthermore, the 35- to 50-year-old age group, full-time employees, and moderate-risk appetite dominated both the mutual fund and UITF sectors. The mutual fund clients, however, are more distributed in terms of investing experience, preferred investment horizon, and primary reason for investing as compared with the UITF clients.

Table 6. Profile of Retail Investors as Perceived by the Mutual Fund Providers

Classification	Percentage
Annual Income	
Class A (annual income of P hp3,000,000 and above)	35.3%
Class B (annual income between P hp1,200,000 and P hp2,999,999)	17.6%
Class C (annual income between P hp720,000 and P hp1,199,999)	35.3%
Class D (annual income between P hp360,000 and P hp719,999)	11.8%
Age*	
24–34 years old	22.2%
35–50 years old	77.8%
No response	11.1%
Profession*	
Full-time employees	88.9%
Entrepreneurs	22.2%
No response	11.1%
Risk Appetite*	
Low returns with low risks	33.3%
Moderate returns with moderate risks	44.4%
High returns with high risks	22.2%
No response	11.1%
Preferred Investment Horizon	
Long term	22.2%
Medium term	44.44%
Short term	22.2%
No response	11.1%
Investing Experience*	
Zero experience	11.1%
Not very familiar (primarily invested in bank deposits)	22.2%
Some experience (with some prior experience investing in mutual fund, VUL, or other pooled funds)	33.3%
No response	11.1%
Primary Reason for Investing*	
Growth	66.7%
Passive Income	22.2%
Retirement	22.2%
No response	11.1%

* Multiple responses.

Furthermore, the respondents also cited some of the common problems they have experienced with their clients. Among retail investors, the mutual fund providers mentioned that the most common problem is the limited knowledge about the mutual fund, which leads to unrealistic expectations on returns. This is consistent with the problems experienced by UITF providers among their retail clients (Gutierrez, 2020). With regard to institutional clients, some players cited the limited scale of their funds and noted that institutions have concentration limits as to how much could be invested in a single fund. Another respondent mentioned that large institutional accounts prefer discretionary mandates that are available only through a trust. In the case of private banks, the most common problems experienced by the mutual fund providers is that they are not a priority because most private banks focus more on their core banks products, like current accounts, saving accounts, time deposits, and UITFs. Furthermore, private banks only carry mutual funds from their affiliated mutual fund company.

The mutual fund providers were also asked about the status and performance of their team. The sales team constitute the largest share in terms of the number of employees, accounting for an average of 44% of the mutual fund team. This is followed by the investment team with a 20% share, portfolio management team with a 19% share, and the research team with a 17% share. These results are understandable because the sales team is in charge of building the client base. The sales team demands a larger workforce given the dominant distribution strategies of mutual fund providers is through their private networks.

Table 7. Breakdown of Mutual Fund Teams

Type of Team	Average Percentage Breakdown
Sales	44%
Investment	20%
Portfolio Management	19%
Research	17%

Unlike the UITF marketing personnel, mutual fund teams have distinct characteristics in terms of age and average working experience. The average working experience of a mutual fund team is eight years. In addition, it is quite evident from the survey that the portfolio management team has the greatest average working experience at 11 years, whereas the sales team has the least average working experience at six years. This finding is consistent with the average age of the employees within each team. Primarily, the investment, research, and sales team are dominated by employees belonging to the 23- to 34-year-old age group. Evidently, the age of the team across the mutual fund providers is quite young as most belong to the 23-to 34-year-old age bracket.

Table 8. Average Working Experience of Mutual Fund Teams

Type of Team	Average Working Experience (in number of years)
Portfolio Management	11
Investment	8
Research	7
Sales	6

Table 9. Distribution of Mutual Fund Teams by Age Group

Type of Team	Age Group			
	23–34 years old	35–44 years old	45–46 years old	57–67 years old
Investment	75.0%	12.5%		12.5%
Research	66.7%	33.3%		
Sales	57.1%	42.9%		
Portfolio Management	33.3%	44.5%	22.2%	

Furthermore, the respondents were asked to rate the skills necessary for a mutual fund team to succeed in the sector. The scale was from 1 to 5, with 5 being the most important and 1 being the least important. The critical skills vary across the different teams. For the investment team, the top three most important skills are knowledge of financial instruments, portfolio management, and financial analysis. The same is true for the portfolio management team, except that the top skill is the portfolio management skills. In the case of the research team, the top three most important skills include financial analysis, knowledge of financial instruments, and securities research. Lastly, for the sales team, the top three most critical skills are relationship management, presentation skills, and knowledge of financial instruments. Despite the variation among the different teams, all the teams consider knowledge of financial instruments to be one of the most important skills necessary to succeed in the mutual fund sector.

Table 10. Most Important Skills Needed by Mutual Fund Teams to Succeed in the Sector as Rated by Respondents

Skills	Investment Team	Portfolio Management Team	Research Team	Sales Team	Averag e
Knowledge of Financial Instruments	4.9	4.9	4.9	4.8	4.9
Portfolio Management	4.6	5.0	3.8	3.9	4.3
Financial Analysis	4.4	4.6	5.0	3.8	4.5
Relationship Management	4.2	4.1	3.6	5.0	4.2
Presentation Skills	4.1	4.0	4.6	4.9	4.4
Securities Research	4.1	4.0	4.8	3.6	4.1
Digital Advice	3.8	3.7	3.9	4.1	3.9
Knowledge of Foreign Languages	2.8	2.8	2.8	3.3	2.9

Among retail investors, limited client knowledge about the mutual funds offering remains one of the major issues faced by mutual investors. In terms of skills gaps and problems associated with mutual fund teams, respondents mentioned the following:

- presentation skills and ability to explain complicated investment basics in more layman terms to the clients;
- knowledge of offshores products, fiduciary responsibilities, accounting methods, risk, and compliance;
- ability to release real-time updates to anticipate the market panic of clients;
- improved understanding of the role of the Philippine asset class in a globally diversified portfolio; and
- ability to perform better than local benchmarks to mitigate or outperform sector or company risk exposures that would affect the fund portfolio, and greater sectoral knowledge and experience.

In terms of the outlook on the future direction of the mutual funds sector in the Philippines, the respondents were asked to rate the various trends and issues in the sector and their impact on their performance. The scale was from 1 to 5, with 5 having the most impact and 1 having the least impact. Based on the survey, the top five most critical trends in the sector are digitization in the financial services sector, changing demographics of Filipino investors, outdated legislation (specifically the RA 2629 or the ICA), competition with local mutual fund companies, and competition with UITF.

Table 11. Trends in the Mutual Fund Sector as Rated by the Respondents

Trends or Issues in the Mutual fund Sector	Average Rating
Digitization in the financial services sector	4.6
Changing demographics of Filipino investors	4.3
Outdated legislation (RA 2629 or ICE)	4.2
Competition with local mutual fund companies	4.1
Competition with UITF	4.0
Competition with VUL	3.8
Competition with foreign mutual fund companies	2.7

Despite the amendments to the current ICA, some issues still need to be resolved in terms of the limitations or the lack of flexibility in the regulations that hampers the growth of the industry. For instance, because of limitations on the investment universe and allowable range of products, mutual funds are lagging behind UITFs in terms of the number of funds available in the markets, which as mentioned above, is at 65 funds as of 2020. In addition, setting up new funds is time consuming and costly because of the SEC regulations on incorporation and registration. As a result, the lack of flexibility in the regulations make UITF and VUL more attractive and accessible for investors.

Comparing the results with the UITF sector, it is quite evident that the two sectors share common pressing trends that might affect the outlook for the two financial instruments. The prevalence of the COVID-19 pandemic increased the impact of digitization and the changing demographics of Filipino investors to the sector. With the rise of social media and financial technology and as consumers value more convenience and faster transactions, they would demand a more convenient and accessible way to transact and invest in financial instruments. These present more challenges to the sector to increase awareness, availability, and accessibility to the investing public. Moreover, the changes in customer behavior would demand better and more flexible regulations, especially with the increasing varieties of commoditized funds in the market. The UITF seemed to be the closest to the mutual fund, but it is deemed to be more accessible to the investing public.

Lastly, respondents were asked about their familiarity with socially responsible mutual funds on a scale of 1 to 5, with 5 having the highest level of familiarity and 1 having the least level of familiarity. Based on the results, the respondents across the various mutual fund teams expressed that they would give an average rating of 4 to their level of familiarity towards socially responsible mutual funds.

Table 12. Level of Familiarity of Mutual Fund Teams towards Socially Responsible Mutual Funds

Type of Team	Rating
Investment	4
Portfolio Management	4
Research	4
Sales	4

Similarly, the respondents were asked to assess the possible demand appetite of clients towards socially responsible mutual funds. The respondents rated the demand appetite on a scale of 1 to 5, with 5 having the highest level of demand and 1 having the lowest level of demand. Based on the results, the assessment of the mutual fund providers on the demand appetite of their clients was a rating of 3. This is in the midpoint of the scale; thus, the findings show they are quite unsure whether or not clients are ready for socially responsible mutual funds. As a result, most of the mutual fund providers (66.7%) responded that they are unsure whether they plan to offer socially responsible mutual funds in the future. The remaining 33.3% of the respondents mentioned that they do have plans to offer socially responsible mutual funds in the future.

Table 13. Level of Demand for Socially Responsible Mutual Funds as Perceived by Respondents

Type of Client	Perceived Level of Demand
Institutional Investors	3
Retail Investors	3
Private Banks	3
Other	3

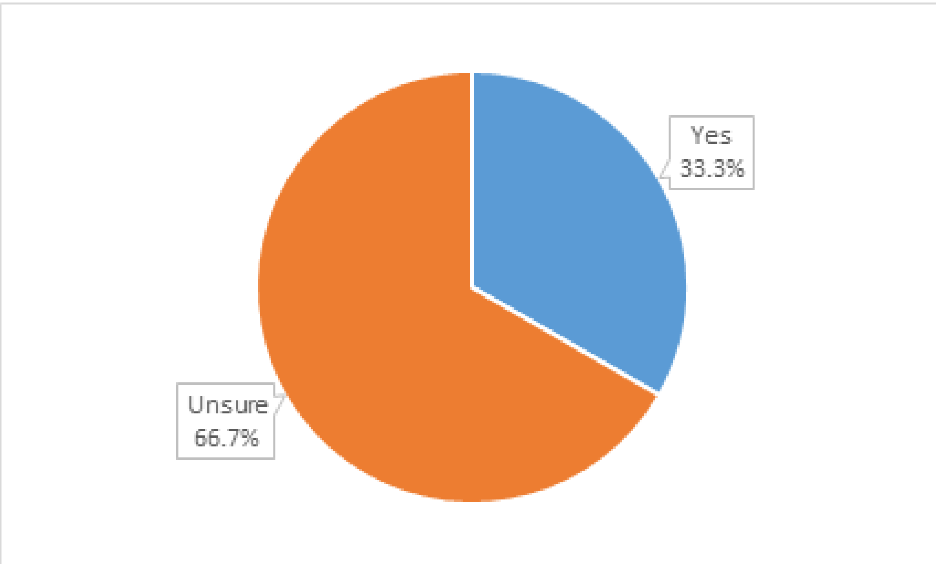

Figure 12. Plans to Offer Socially Responsible Mutual Funds

C. Awareness and Perception of Retail Investors towards Mutual Funds

A total of 257 Filipino respondents were surveyed with the objective of evaluating their level of awareness, perception, and attitude towards mutual fund. Because of the absence of the data on the total population of respondents, convenience sampling was used in selecting the survey respondents. Among the 257 unique individuals surveyed, 47.5% are working professionals or employees, 36.6% are college or postgraduate students, 5.1% are full-time entrepreneurs, 4.7% are unemployed, 3.9% are part-time employees, and the remaining 2.3% are unemployed.

In terms of sex, 131 out of 257% or 51% are women, 124 respondents or 48.2% are men, and the remaining 2 respondents or 0.8% preferred not to classify themselves. The respondents are broken down in terms of age as follows: 35% are 23 years old or younger, 29.6% belong to the 23- to 34-year-old age group, 22.6% are between the ages of 35 and 51, and the remaining 12.8% of the respondents are 51 years old or older. Regarding the highest level of educational attainment, 31.5% of the respondents are high school graduates, which accounted for most of the college students who were surveyed. Among the 257 respondents, 31.5% are college graduate, 34.2% of the respondents hold a master's degree, and the remaining 2.7% have earned a doctoral or other professional degree. In terms of annual income, 36.2% of the respondents have an annual income of less than Php100,000. This group also account for the student group, which treats allowances from parents as part of their annual income. Among the remaining respondents, 38.1% belong to the middle-income classification with an estimated annual income of between Php200,000 to Php800,000. Table 14 summarizes the sociodemographic profile of the respondents.

Despite conducting a survey with a different set of respondents from the initial UITF study, the sociodemographic characteristics remained consistent between the two groups of respondents.

Table 14. Sociodemographic Profile of the Respondents

Classification	Frequency	Percentage
Working Professional/Employee	122	47.5%
Student	94	36.6%
Full-time Entrepreneur	13	5.1%
Part-time Employees	10	3.9%
Retiree	6	2.3%
Unemployed	12	4.7%
Age Group		
23 years old and younger	90	35.0%
23–34 years old	76	29.6%
35–50 years old	58	22.6%
51 years old and older	33	12.8%
Sex		
Men	124	48.2%
Women	131	51.0%
Unspecified	2	0.8%
Highest Educational Attainment		
High School Graduate	81	31.5%
College Graduate	81	31.5%
Master's Degree	88	34.2%
Doctoral/Professional Degree	7	2.8%
Annual Income		
Less than Php100,000	93	36.2%
Php101,000–200,000	21	8.2%
Php201,000–400,000	23	8.9%
Php401,000–600,000	31	12.1%
Php601,000–800,000	23	8.9%
Php801,000–1,000,000	19	7.4%
More than Php1,000,000	47	18.3%

The respondents were asked about their familiarity with financial asset investments. Of the 257 respondents, 35.4% mentioned that they had some experience in financial asset investments, such as UITFs, mutual funds, VUL, and managed funds, among others. The same level of familiarity is dominant within the groups of part-time employees and working professional/employees. Meanwhile, 24.9% of the respondents said that they have a wide experience in investing in financial assets as they have both direct and indirect investments, including bonds and stocks. The same level of familiarity is dominant among the full-time entrepreneur and unemployed group of respondents. The retirees, in contrast, predominantly classified themselves as not very familiar with financial asset investments or as primarily invested in banks. Students, however, predominantly included those who have either no experience in financial asset investment or those who are not very familiar with financial asset investments. The level of familiarity on financial assets of the respondents from the UITF survey also was consistent with the mutual fund survey, with students having the greatest percentage of inexperienced investors and the entrepreneur group having the largest percentage of experienced investors.

Table 15. Familiarity in Financial Asset Investment

Familiarity in Financial Asset Investment	Student	Full-time Entrepreneur	Part-time Employee	Working Professional/ Employee	Retiree	Unemployed	Total
Zero experience, no investment at all	33.0%	0.0%	10.0%	5.7%	0.0%	16.7%	16.0%
Not very familiar (primarily invested in bank deposits)	39.4%	0.0%	10.0%	15.6%	50.0%	8.3%	23.7%
Some experience, indirect investments (UITF, mutual funds, VUL, managed funds, etc.)	20.2%	23.1%	40.0%	49.2%	33.3%	25.0%	35.4%
Wide experience, both direct and indirect investments (mutual funds, UITF, time deposits, bonds, stocks, forex, derivatives, etc.)	7.4%	76.9%	40.0%	29.5%	16.7%	50.0%	24.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Regarding the breakdown of financial asset investments, cash and cash equivalents have the greatest share of the total portfolio with 38.1%. This is followed by equities with 21.2% share, insurance products with 15.2%, funds with 9.9% share, bonds with 6.8% share, alternative investments with 5.5% share, commodities with 2.6% share, and derivatives or structured products with 1.6% share.

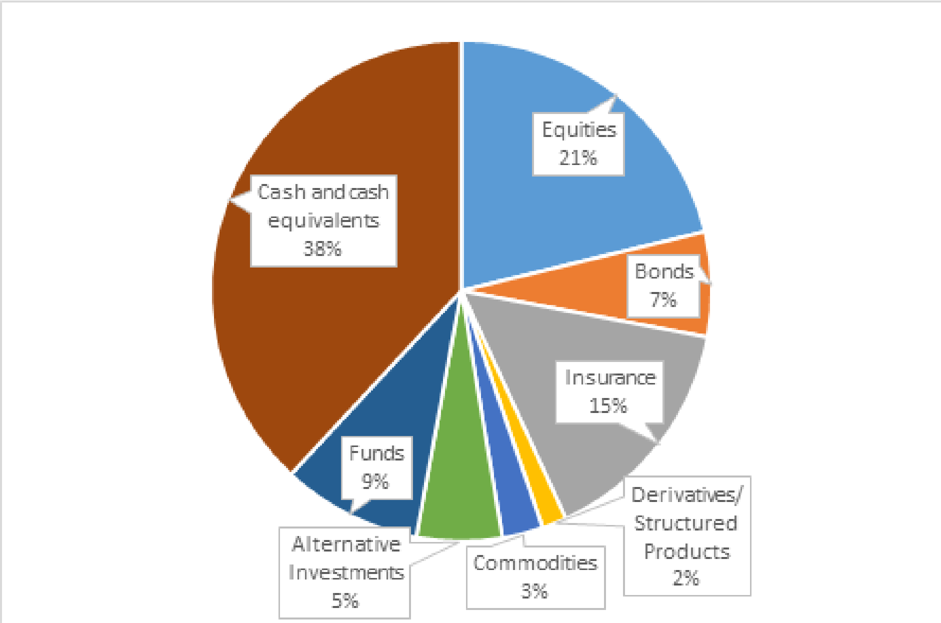

Figure 13. Breakdown of Financial Asset Investment among the Respondents

When asked about their main purpose of investing, the respondents cited various reasons or motivations. Primarily, the top three most cited reasons for investing are to have an additional source of income (36.6%), to generate a significant capital appreciation (24.1%), and to keep their assets intact (22.2%). Again, this finding is consistent with the results of the UITF survey with almost the same percentage of respondents citing to have an additional source of income as their primary motivation for investing.

Table 16. Main Purpose of Investing

Main Purpose of Investment	Percentage
To have an additional source of income	36.6%
To generate significant capital appreciation	24.1%
To keep my assets intact	22.2%
To have a regular source of income	6.2%
No investment	4.3%
Wealth transfer	3.5%
Other	2.7%
Future retirement	0.4%
Total	100.0%

The risk and return expectations of the respondents were another area of inquiry. Based on the results of the survey, 61.1% preferred moderate return with moderate risks. This finding is consistent among the respondent groups except for the retirees.

For the retiree group, most of the respondents (66.7%) preferred low risks and low returns. This is driven by the fact that they no longer have regular income and are relying solely on their retirement funds or pension plans; thus, they are more concerned about keeping their current capital intact, and they would like to avoid large losses from investments.

These results are also consistent with how the mutual fund providers characterized their clients in terms of risk appetite, with most respondents citing the fact that the majority of their clients prefer moderate returns with moderate risks. Comparing the risk and return expectations of the mutual fund group and the UITF group, we observed that the characteristics of the respondents were consistent.

Table 17. Risk and Return Expectations among the Respondent Groups

Risk and Return Expectations	Student	Full -time Entrepreneur	Part -time Employee	Working Professional/ Employee	Retiree	Unemployed	Total
Low returns with low risks	14.9%	7.6%	10.0%	23.0%	66.7%	8.3%	19.1%
Moderate returns with moderate risks	62.8%	46.2%	70.0%	61.5%	33.3%	66.7%	61.1%
High returns with high risks	22.3%	46.2%	20.0%	15.5%	0.0%	25.0%	19.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The return expectations of the respondents are quite distributed with a bigger percentage clustered between 6.0% and 10.0%. This finding is consistent among the respondent groups except for the part-time employees. Among the part-time employees, 60.0% expect that the annual return from their investments would be between 16.0% and 20.0%.

Table 18. Target Annual Return When Investing among Respondent Groups

Target Annual Return	Student	Full -time Entrepreneur	Part -time Employee	Working Professional/ Employee	Retiree	Unemployed	Total
0–5%	26.6%	7.7%	10.0%	17.2%		8.3%	16.7%
6–10%	27.7%	30.8%		47.5%	66.6%	66.7%	33.3%
11–15%	19.1%	7.7%		19.7%	16.7%		25.0%
16–20%	12.8%	23.0%	60.0%	4.1%	16.7%	25.0%	8.3%
Above 20%	13.8%	30.8%	30.0%	11.5%			16.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0 %

In terms of frequency of monitoring their investments, the responses varied. The largest percentage of respondents (33.9%) indicated that they monitor their investments on a monthly basis.

Table 19. Frequency of Investment Monitoring

Frequency of Investment Monitoring	Percentage
Daily	19.5%
Weekly	15.9%
Monthly	33.9%
Yearly	12.4%
Never	18.3%
Total	100.00%

After assessing the sociodemographic characteristics and investor's profile of the respondents, they were then asked about their level of understanding regarding mutual funds. The respondents were asked to rate their level of understanding of mutual funds on a scale of 1 to 5, with 5 having the highest level of understanding.

Among the 257 respondents, the average rating given to the level of understanding towards mutual fund is 3.1. This is the midpoint of the scale, indicating that respondents perceived that their level of understanding is not that high but also not too low. Looking at the various respondent groups, the unemployed group has the highest average rating in terms of the level of understanding towards mutual funds at 3.8. This is followed by the group of full-time entrepreneur with an average rating of 3.6, part-time employees with an average rating of 3.4, and working professional/employees with an average rating of 3.3. The respondent groups with the lowest average rating on the level of understanding towards mutual fund include the student group with 2.6 and the retirees with an average rating of 2.0.

Table 20. Level of Understanding towards Mutual Funds among Respondent Groups

Respondent Group	Average Rating
Student	2.7
Full-time Entrepreneur	3.6
Part-time Employee	3.4
Working Professional/Employees	3.3
Retiree	2.0
Unemployed	3.8
Total	3.1

When asked about their sources of information on mutual funds, respondents gave various answers. The dominant source among the respondents was internet/social media with 32.7% of the responses pointing to that specific source of information. This finding is followed by professional advice (19%), which includes their personal financial advisers , agent, and the bank. The third most commonly cited source was peers at 18.3%.

Table 21. Sources of Information on Mutual Funds

Source of Information	Percentage
Internet/Social Media	32.7%
Professional Advice	19.0%
Peers	18.3%
Working Environment	9.7%
Family	7.8%
TV and Radio	6.4%
Print Media	3.1%
School	1.5%
Books, Learning Materials	1.2%
Other	0.3%
Total	100.0%

The respondents were asked if they have invested or are currently investing in mutual funds. Among the 257 respondents, 144 (56.0%) said that they have not invested in mutual funds, and the remaining 113 respondents mentioned that they either have invested or are currently investing in mutual funds. Those who currently invest in mutual funds are primarily working professionals/employees and full-time entrepreneurs. The respondents who do not have mutual investments are primarily the students.

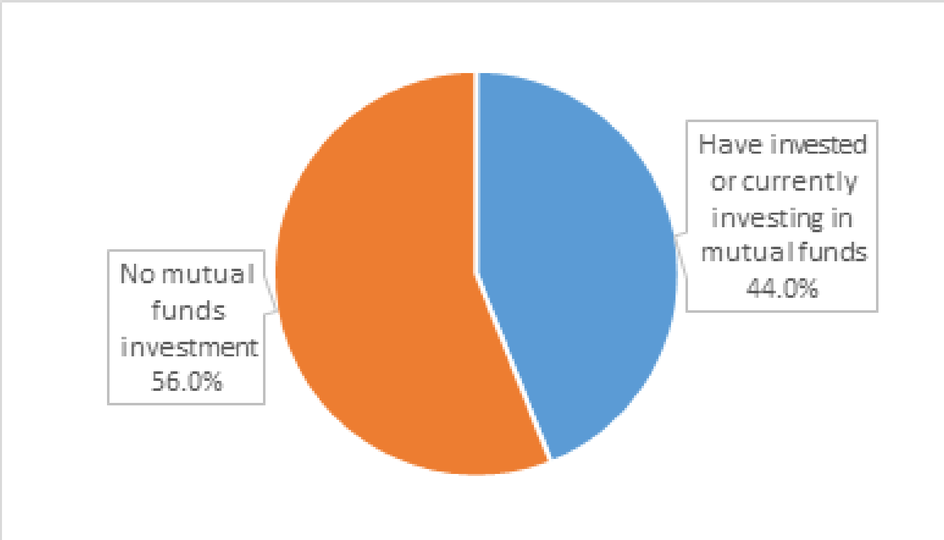

Figure 14. Investment Experience in Mutual Funds

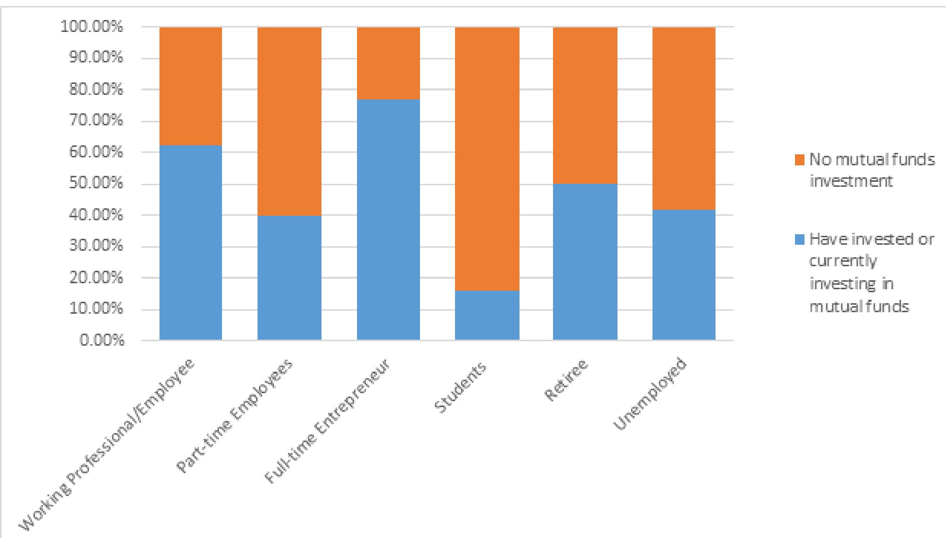

Figure 15. Investment Experience in Mutual Funds among Respondent Groups

Among those who either have invested or currently investing in mutual funds, 57.5% mentioned that they have invested or have been investing for more than three years. The rest of respondents have varied responses, ranging from less than six months to three years.

Table 22. Number of Years Investing in Mutual Funds

Number of Years	Percentage
Less than 6 months	7.1%
6 months to 1 year	5.3%
1 year to 3 years	30.1%
More than 3 years	57.5%
Total	100.0%

The respondents who currently are investing in or have invested in mutual funds were asked about their investment choices based on the survey results. Although no one specific type dominates all of the mutual fund offering, 37.3% of the respondents have indicated that they currently do invest in these funds. This finding is followed by balanced funds, in which 26.1% of the respondents are invested, and money markets, with 21.6% of the respondents indicating they have invested in this type of mutual fund.

Table 23. Type of Funds the Respondents Currently Invest In

Type of Fund	Percentage
Equity Fund	37.3%
Balanced Fund	23.8%
Money Market Fund	21.6%
Bond Fund	17.3%
Total	100.0%

In terms of the average annual return realized from their mutual fund investment, it is evident that across the different types of fund, the realized annual return for most of the respondents ranged from 0% to 10%. Meanwhile, the most common frequency of buying new units would be on a yearly basis.

Table 24. Average Annual Return on Mutual Funds

Average Annual Return	Money Market Fund	Bond Fund	Equity Fund	Balanced Fund
0–5%	74.2%	56.6%	33.3%	45.2%
6–10%	19.4%	37.7%	40.7%	33.9%
11–15%	1.6%		12.4%	11.3%
16–20%	3.2%	1.9%	6.2%	1.6%
Above 20%	1.6%	3.8%	7.4%	8.0%
Total	100.0%	100.0%	100.0%	100.0%

Table 25. Frequency of Buying New Units of Mutual Funds

Frequency	Percentage
Weekly	2.7%
Monthly	24.8%
Yearly	38.0%
Every settlement date	17.7%
Never	16.8%
Total	100.0%

The respondents were asked what features of mutual funds they value as an investor. They were asked to rate the importance of the mutual fund feature on a scale of 1 to 5, with 5 having the highest level of importance. Based on the results, the respondents gave an average of 4.2 ratings to all the cited features, with professional fund management garnering the highest average rating at 4.5, followed by better earnings potential and transparency, both with an average rating of 4.3.

Table 26. Mutual Fund Features That Retail Investors Deemed to Be Important

Mutual Fund Features	Ave rage Rating
Accessibility	4.2
Affordability	4.1
Better earnings potential	4.3
Transparency	4.3
Liquidity	4.0
Professional fund management	4.5
Average Rating	4.2

When the respondents were asked about the current problems that they experience with their mutual fund investments, 43.0% mentioned that they have no problems thus far. However, 57% respondents pointed out various issues or problems that they have with their investments. These include high fee or transaction cost structure, liquidity concerns, and volatile movements of prices especially during the COVID-19 pandemic. Among the respondents, 10.6% also raised some issues with their financial advisers, citing the limited transparency and lack of responsiveness after the initial subscription, which they term as very poor after-sales service. According to the respondents, the providers lack professional advice, and they do not provide sufficient knowledge in monitoring their investments. In addition, 8.8% of the respondents do not understand fully how their mutual fund investment works, resulting in low satisfaction in terms of returns and performance. These problems also can be traced to the level of understanding of respondents towards the mutual fund products, specifically on the risk characteristics of the investment and how the market will affect the performance of their investments.

Investors also were asked if they will recommend mutual funds to other investors or noninvestors. Among the respondents, 66.9% said they will still recommend investing in mutual funds. Primarily, the respondents noted that mutual funds are a good choice for investment, as they are relatively safer especially for those who are new into investing. In addition, some respondents highlighted that the returns are better than simply keeping money in the bank. Furthermore, 9.9% of respondents mentioned that the fact that mutual funds are professionally managed made them decide to recommend it to other investors.

In contrast, 29.2% of the respondents are not sure whether they will recommend mutual funds to other investors. Some of the reasons cited by these respondents include their limited knowledge and familiarity with mutual funds while others noted they invested in mutual funds before and are not happy with the returns.

The remaining 3.9% of the respondents mentioned that they will not recommend investing in mutual fund. These investors cite the primary reason as the low returns they realized from investing in mutual funds.

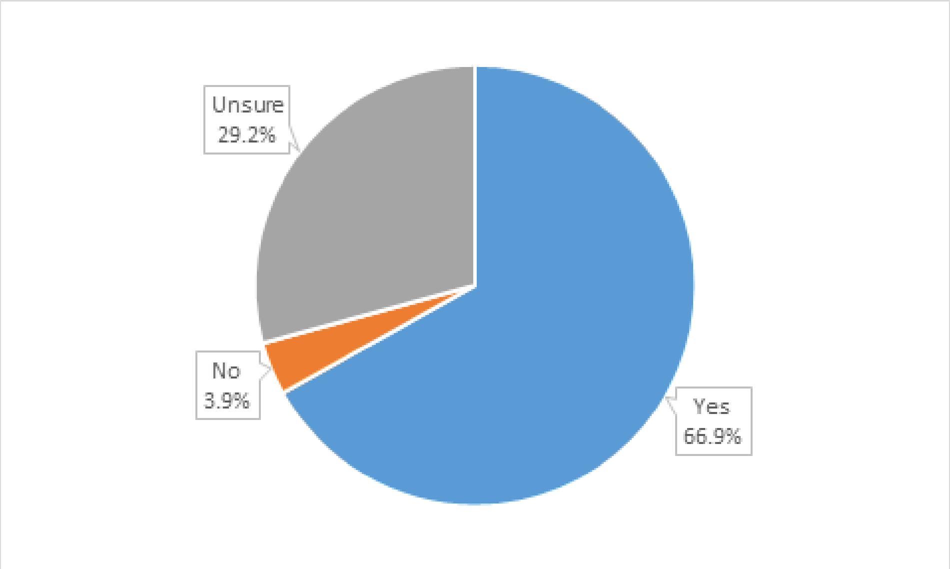

Figure 16. Willingness to Recommend Mutual Fund

Lastly, the respondents were asked about their level of familiarity with socially responsible mutual fund. Respondents rated their level of understanding on a scale of 1 to 5, with 5 having the highest level of understanding. Based on the results, the respondents perceived that they have a relatively low level of familiarity and understanding of socially responsible mutual funds with an average rating of 2.4. The full-time entrepreneurs have the highest level of understanding, with an average rating of 3.0, and the retirees have the lowest level of understanding, with an average rating of 1.8.

Table 27. Level of Familiarity on Socially Responsible Mutual Funds

Respondent Group	Average Rating
Student	2.4
Full-time Entrepreneur	3.0
Part-time Employee	1.8
Working Professional/Employee	2.4
Retiree	2.0
Unemployed	2.8
Average Rating	2.4

When asked if they are willing to invest in socially responsible mutual funds, 59.1% said that they are willing, 28.5% are unsure, and the remaining 2.3% are not willing to invest. As to the percentage of their portfolio that they would allocate for socially responsible mutual funds, the responses ranged from 0.01% to 80.0%, with an average of 12.0%. Some respondents remain undecided as they want to gather more information about the financial instrument before making the decision.

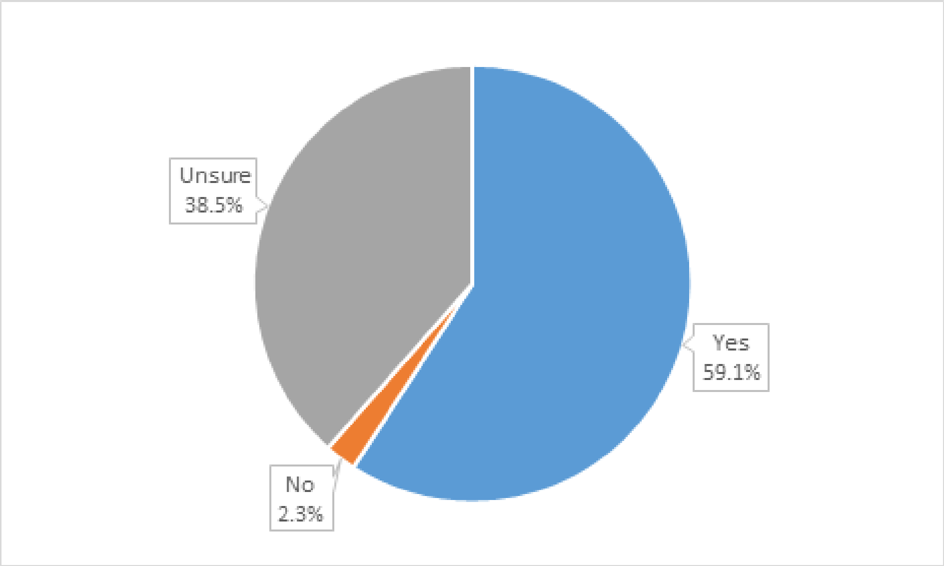

Figure 17. Willingness to Invest in Socially Responsible Mutual Funds

VI. Conclusion

Similar to the UITF study conducted in 2020, the results of this survey suggest that there are gaps between the demand side and the supply side of the mutual fund sector in the Philippines.

From the demand side, majority of respondents have no investment in mutual funds. It is also evident that majority of student groups have not yet invested in mutual funds. Furthermore, students are perceived to have the lowest level of understanding of mutual funds. This low level of understanding of mutual funds explains the low penetration or investment rate among this group of respondents. This finding is consistent with the results on the UITF study, wherein the students indicated a low level of awareness of UITF.

Furthermore, the retail investors indicated similar problems with mutual funds. These include the limited knowledge and understanding of the financial instruments, which further results in a low level of satisfaction with the performance of their investment.

From the supply side, the mutual fund sector lags behind UITF in terms of AUM. Comparing the 2019 values for the Philippine peso-denominated funds, UITF has around Php657.6 billion in AUM, whereas the mutual fund sector recorded an AUM of Php284 billion. This difference in AUM was primarily driven by the limitations of the mutual fund sector in terms of the available funds for investors, which is recorded at 65 funds as of 2020.

In terms of the client profile, a majority of the investors of mutual funds belong to the retail investor segment. In terms of age, the retail investors primarily belong to the 35- to 50-year-old age group. This explains the low level of understanding and investments among the younger segment of the population. Accessibility is one of the features that is most valued by the clients. Although mutual fund providers recognize the importance of digitization and changing demographics as some of the most critical factors that the industry must consider, the strategies employed are not that effective in capturing more investors to invest in the mutual funds.

These results are contradictory in terms of the mutual fund performance as well as the investors' profile. From the mutual fund performance, the sector is dominated by money market funds. Looking at the primary investment of the retail investors, however, findings indicated that investments are primarily in equity funds. This discrepancy might be a result of the limited sample captured in the retail investor survey and it may be worthwhile to look into this further.

Similar to the UITF sector, the mutual fund segment experienced problems with regard to their mutual fund team, specifically on the knowledge on the various mutual fund offerings to investors. This further explains the low level of understanding among retail investors.

With regard to the socially responsible mutual funds, the level of understanding among retail consumers is still low resulting in low anticipation of demand from the mutual fund managers.

Lastly, the results suggest that outdated regulations greatly affect the industry. This also explains why mutual funds are lagging behind counterparts in the pooled-investment segments.

These findings were consistent with the previous studies conducted on the awareness and perception of retail investors towards mutual funds as well as the critical success factors that drive industry performance. In comparison with the UITF industry, regulatory restrictions need to be made more flexible to support the potential growth of the industry. If enacted into law, the Collective Investment Scheme (CIS) bill proposed in 2018, which aims to standardize the regulations for the pooled investment products available in the market, is expected to be beneficial to the mutual fund industry. The proposed law is expected to make the mutual fund more competitive with its counterparts in the pooled investment segment, particularly UITF and VUL. Similar to the UITF sector, the support of the regulatory bodies for mutual funds is critical to fuel the growth of the industry. Regulations that give more flexibility to mutual fund providers to offer new types of funds and invest in more financial instruments are key to the success of the industry.

VII. Recommendations

To strengthen the presence of mutual funds in the minds of investors and increase the penetration of mutual funds especially to the younger segment of the market, several strategies must be put into place. These strategies include the following:

1. Make mutual funds more accessible to investors by utilizing digital platforms and financial technology. This includes improving the total online experience of investors to improve retention. With the onset of the pandemic, digital transformation served as a key driver for various industries, including the investment management industry as highlighted by various industry reports mentioned in the review of literature. Furthermore, accessibility has been identified as one of the most important features of mutual funds identified by retails investors. Thus, to thrive in the industry post-COVID 19 pandemic, mutual fund players must focus on digital transformation and utilizing the social media and mobile devices to retain clients and to capture new clients especially the younger segment of the population. Another key to making mutual funds accessible to all segments of the retail investors is to use financial technology as a platform for investment. The most widely used channels in the Philippines include Gcash and Paymaya.

2. Integrate mutual fund investments among employees through partnerships with private companies and the government through a guaranteed investment plan. This will enable a portion of the income of the employees to be invested in mutual funds. Based on the results, 56% of the respondents have not invested in mutual funds. Among the working professional group, 40% have not invested in mutual funds. Partnering with private companies and the government to enable mutual fund investments among their employees would be beneficial to promote financial literacy and investment. Furthermore, mutual fund companies can partner with higher educational institutions and offer flexible investment products for students to promote awareness, savings, and financial literacy among this group.

3. Improve the low level of awareness of retail investors, which is driven by the lack of product knowledge among the mutual fund sales teams. Thus, mutual fund companies should rethink the role of the mutual fund team, most notably with changing trends in the workplace as well as digitization and automation. Mutual fund companies should rethink how they will be able to integrate the use of automation and incorporate the human component to improve client relationships. This can include automated responses for commonly asked questions among retail investors to provide a quicker and better response rate and at the same time more personalized financial advice to those who have more pressing concerns.

4. Provide innovative and differentiated products. Because the pooled fund investment products in the Philippines are not differentiated and mutual funds lag behind UITF and VUL in terms of accessibility, mutual fund providers must think of strategies to further innovate and differentiate its offerings from the rest of its counterparts in the pooled investment funds category. This also can be achieved by improving the overall experience of the investors through better and improved service.

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