



Asia-Pacific
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Session: Asian Growth – Risks and Forecasts

2.1.3

The Fund Management Market in Asia

Purpose: Information

Submitted by: Ben Bruck

Macquarie Funds Management, Sydney



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Funds Management in Asia

APEC Centres Symposium 2007

Ben Bruck
Group Head, Funds Management Group
Macquarie Bank

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Agenda

- Market snapshot
- Entry & expansion strategies
- Issues for policy-makers



Market snapshot



A high-growth industry

Largest APEC asset management industries - Asia

| | Approx size* (USD trillions) | CAGR* 5 yrs to 2006 | Foreign competition |
|-----------|---------------------------------|------------------------|------------------------|
| Japan | 2.9 | 14% | High |
| Australia | 1.0 | 21% | High |
| Korea | 0.5 | 16% | Medium |
| Hong Kong | 0.5 | 29% | High |
| Singapore | 0.4 | 27% | High |
| China | 0.1 | 61% | Low |
| Taiwan | 0.1 | 3% | Medium |
| Malaysia | 0.1 | 13% | Low |

* Source: national industry associations / regulators

15%+ pa considered achievable, longer-term



Growth drivers

- Ageing
- Policy
 - private pension account schemes
 - mandatory pension contributions
 - regulatory liberalisation
- Shift away from traditionally intermediated savings
 - away from deposits & insurance
 - increasing investor sophistication
- Economic growth

All of these factors remain in an up-trend



Entry & expansion strategies



Many viable options

- Manufacture in Asia
 - 100%-owned local operation
 - JV with local partner
- Export funds into Asia
 - via own local licensed entity
 - sub-advise local licensed firm
- Invest in Asia
 - directly from own-managed funds
 - sub-contract local fund manager(s)



Opportunities & challenges

| Strategy | Advantages | Considerations |
|----------------------------|--------------------------|---|
| Manufacture locally | Most \$\$\$ stay at home | Cost & resources Regulatory barriers |
| Export / distribute | Gain scale | Building a brand Regulatory barriers |
| Invest | Tap home market demand | Regulatory risks |

We believe these strategies are best evaluated nationally first, regionally second



The Macquarie experience

Recent asset management activities across Macquarie

| | Local manufacture | Distribution / export | Inward investment |
|-----------|----------------------|--------------------------|----------------------|
| Japan | | Yes | Yes |
| Australia | Yes | Yes | Yes |
| Korea | Yes | Yes | Yes |
| Hong Kong | Yes | Yes | Yes |
| Singapore | Yes | | Yes |
| China | Yes | | Yes |
| Taiwan | Yes | Yes | Yes |
| Malaysia | Yes | | Yes |



What we're pursuing

→ Products for which we see rising demand in the APEC Asia markets include:

→ regional & global funds

→ specialist asset classes, eg :

→ private equity

→ infrastructure

→ REITs

→ "alpha-only" solutions (hedge funds) for institutions



Issues for policy-makers



Capital markets & supply inputs

- Asset management is dependent on a number of key inputs in order to flourish:
 - liquid & transparent securities markets
 - liquid derivatives & hedging markets
 - IT & professional services
 - deep pool of executive talent



Tax & compliance

- Harmonisation between national markets is neither realistic nor desirable
- However a number of key features are essential to promote industry growth
 - minimal distortion of taxation treatment over different types of income
 - availability of “see-through” taxation for at least some forms of collective investment vehicles
 - firm application of mark-to-market principles
 - disclosure-based regulation rather than prescription



Regulation

Most APEC Asian markets are steadily liberalising:

| Regulatory environment | Examples |
|------------------------|---|
| Foreign ownership | China JVs permitted |
| | Malaysia New licence category |
| Pension schemes | Hong Kong Mandatory private accounts |
| | Korea & others Outsourcing of management |
| Capital flows | China QFII & QDII programs |
| | Malaysia Raised foreign asset quota |
| | Korea Taxation of offshore funds |
| Products | Singapore REITs |
| | Hong Kong Hedge funds |



Conclusion

- Asian APEC economies offer tremendous opportunities for growth in funds management
- Entry strategies should be considered nationally first, regionally second
- Ongoing step-by-step liberalisation, within each market at its own speed, is the surest single measure to support growth