



GATEWAY INSIGHTS

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13 Why international fund managers should care about the Australian opportunity

Introduction

The Australian financial market offers international fund managers the opportunity to participate in a sophisticated, liquid and rapidly growing investment pool which has historically welcomed new players and which encourages competition. This Insight paper by Gateway explores why fund managers should consider Australia as a destination for growth.

Australia's strong economy

Australia has weathered the global financial crisis better than most advanced economies. This reflects a strong fiscal economy, decisive monetary responses from the Australian Government and the central bank, and a strong and transparent regulatory framework. The Australian financial sector is well capitalised and is recognised as a significant centre for wealth management in the Asia-Pacific region in particular. Australia has developed a sophisticated and growing funds management industry, with funds under management now at approximately A\$1,197 billion.¹

The Australian funds management industry's strength and continued growth is founded on three factors – long and consistent strong economic growth, the introduction in 1992 of mandated superannuation for all employees, and a tight but well respected regulatory environment. This has created a very deep market which is based on sound fundamentals.

Australian investors are sophisticated and outward looking and have significant exposures to global markets and alternative asset classes. According to the Australian Bureau of Statistics² (ABS) managed

¹ Morningstar Market Share Report - June 2009

² Source: ABS 5655.0 - Managed Funds, Australia, Jun 2009

superannuation is the key segment of the Australian market, with the largest asset sector growth over the last 20 years being in international assets, equities and cash and deposits.

The Australian market is therefore an attractive market on which to focus your attention. Some of the key issues in understanding the Australian market are explored below.

1. Regulatory burden lifted

In July 2008, the Australian Securities and Investment Commission (ASIC) and Hong Kong Securities and Futures Commission (SFC) announced that they had signed a "Declaration of Mutual Recognition" that will facilitate cross-border offers of managed funds to retail investors in Australia and Hong Kong. When the Declaration has been fully implemented, it will be possible to offer most Asian funds that are registered with the SFC as "managed investment schemes" to investors in Australia without meeting all of the relevant Australian regulatory requirements.

This follows previous ASIC announcements in which Australia has allowed regulatory "relief" to Singapore, Jersey and US fund managers to operate in Australia, and a "mutual recognition" deal with Singapore as part of the Singapore-Australia Free Trade Agreement. It is envisaged that these measures will be the first of many similar initiatives that will lead to fund managers being able to offer their products across the whole Asia-Pacific region. Hence the time has never been better for Asian (Hong Kong and Singapore in particular) based managers to take the time to assess the opportunities in Australia for exporting of funds management services.

2. Be prepared - regulatory requirements are important

Whilst fund managers can in some cases set up \$A denominated funds offshore eg. Singapore, all fund managers should be aware of the Australian regulatory requirements. The Australian financial services landscape is strongly regulated both in the institutional and retail segments. Managers seeking to enter this market will benefit from thorough preparation and business case analysis.

Legislative and regulatory requirements are complex. Two bodies control the Australian financial industry – Australian Securities and Exchange Commission (ASIC) and the Australian Prudential Regulation Authority (APRA). There are licensing and information provision requirements that must be met before a product can be marketed in Australia.

In addition, today there are some significant changes occurring currently in the Australian regulatory landscape. There is a review of the taxation system in process, the Henry Tax Review, due to be finalised later this year (December 2009). This review has been expanded to evaluate inequities in the current tax system and adequacy issues in retirement. Both are likely to be a key input into this Labour government's reform agenda. There are also reviews underway of the Superannuation system (the Cooper review), and the structure of the industry – fees and commissions (headed by Ripoll).

3. Competitive landscape

The Australian market is very competitive. For example in the International Equities segment of the market, van Eyk Research, an influential Australian gatekeeper, in their International Equities Review for 2009, reviewed over 50 managers (mostly managing to the MSCI World Index), making this one of their largest international equities reviews to date. To further add to this they also reviewed the following investment sectors - International Equities Active Extension, Japanese Equities, International Small Companies, Global Emerging Markets, Global Resources and Asian Equities³.

This demonstrates nicely another point for new entrants to consider - investment style and classification is important in the Australian market. Gatekeepers and investors need to know very clearly what type of investment style product you are offering and what contribution it can be expected to make to an overall diversified portfolio. Therefore new entrants into this market need to have a thorough understanding of their market niche and their competitive strengths and weaknesses versus existing players in the Australian market. Why are you different and why should investors care? Notwithstanding exceptional investment performance how can you make your offering stand out from the 50 or so others?

4. Gatekeepers and distribution are important

In the Australian market, funds management and its distribution of products is dominated by large players such as banks and insurance companies. It is not uncommon today in Australia to see banks such as the National Australia Bank (NAB) owning funds management businesses (MLC & Plum), distribution (or advice) businesses (NAB Financial Planning, Garvan, and MLC Financial Planning amongst others), administration platforms (AVIVA and MLC Masterkey) as well as industry gatekeepers (JANA & Threesixty Research).

So with the dominance of large players owning one or more key parts of the distribution chain, success in selling products is likely to be limited unless your product has been approved by the Australian industry gatekeepers – research houses and asset consultants and a distribution plan is in place. In addition, regulators of the Australian market require financial advisers to have done sufficient due diligence on the products they recommend. Typically this due diligence is outsourced to a Researcher or an Asset Consultant. Fund managers are put through a thorough review process which covers the strengths of the investment team, performance track record, investment philosophy and process, business management and fees. Only a select group of fund managers make it to Recommended Lists and even fewer to a model portfolio where selection is automatic. For example from the van Eyk International Equity Review* of approximately 50 managers only a quarter of these were awarded A ratings (second highest rating) with none being awarded an AA rating. Therefore thorough preparation and

³ www.irate.com.au - International Equities Review 2009, Sector Overview, Page 3

understanding is essential. There are numerous steps which a fund manager can undertake to better manage this process.

5. Product design

All markets and investors are different and Australia is no exception. Issues to do with product design such as branding, taxation implications (including after tax investment reporting), fees and commissions, benchmarks, liquidity requirements and resourcing are also vital components of success in the Australian retail landscape and should be part of a thorough business plan.

Fees, charges and commissions are a hot topic in the Australian funds management industry currently. If a product is not priced competitively it won't be used or recommended. It is widely accepted that there is a differential between retail and institutional pricing but thorough market research on competitor fee positioning is recommended within each market segment and asset class.

There is no denying that exploring offshore opportunities require commitment and capital. It also takes time - however there have been many success stories in the Australian market where previously unknown brands are now household names. Good preparation is essential when building a business case to come to Australia. Time spent however is likely to be well rewarded. Wondering where to get started or where to find further information? Contact Gateway Financial Marketing to enquire about Destination Australia 2010 or visit www.gatewayfinancial.com.au/index.html?whatwedo.htm for an overview on Destination Australia 2010 - a report designed for overseas fund managers looking to explore this opportunity further.

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About Gateway

Gateway Financial Marketing (Gateway) was established in February 2004 by Amanda Rethus and Edwina Best for the purpose of offering fund managers, other product providers and international new entrants, expert advice, services and assistance in negotiating entry into the Australian Retail Financial Services market. Use of Gateway's services provides the opportunity for clients to overcome the hurdles that can often confront fund managers when transitioning from institutional to retail and hence improve participation in retail funds flow. Prior to Gateway, Amanda and Edwina spent over 30 years combined with major institutions in the Retail Financial Services market.

Our qualifications

Amanda has over 20 years experience in the Financial Services industry and was formerly a Divisional Director in the Financial Services Group of Macquarie. Amanda managed investment portfolios for over 10 years, and has spent in excess of 10 years introducing investment products to the Australian Retail market.

Edwina has a Bachelor of Business from UTS majoring in Marketing and International Business. She has over 12 years experience in the financial services market, concentrating in relationship management, product management and marketing. They both have extensive contacts in the retail financial services market especially with key decision makers.

If you would like to confidentially discuss your current approach to the retail market or have any questions on the above please do not hesitate to contact us on – Edwina 0404 046 179 or Amanda or 0414 658 323.