

SINGAPORE – THE LUXEMBOURG OF THE EAST

MICHAEL SANDERS AND CHRISTIAN STOIBER OF ALCEDA DISCUSS THE SUCCESS OF UCITS IN SINGAPORE AND HOW LUXEMBOURG ACTS AS A GATEWAY FOR INVESTMENTS BETWEEN EUROPE AND ASIA



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The Undertakings for Collective Investment in Transferable Securities (Ucits) "brand", offering a stamp of EU-wide regulatory approval and a qualitative hallmark for transparency and risk management, has enjoyed huge successes in Asia over the past ten

years. The growth of Ucits has been largely driven by the efforts of the European fund industry in promoting the Ucits brand as well as opening the doors for cross-border distribution outside of the EU through the signing of memorandums of understanding with the key Asian regulators. Asia is an attractive market for the distribution of Ucits funds, with recent growth trends being likened to a gold rush. A key driver behind the take-up in Asia has been the lack of a pan-Asian collective investment scheme. Each country is protective of its own market enforcing very different regulatory, tax and accounting regimes. With little incentive to align these structures, locally domiciled funds are rarely able to be distributed in other countries in the region.

Given the fragmented state of the Asian mutual fund markets and the lack of a supranational rule-making body similar to the European Union in the region, we do not envisage seeing competition from a pan-Asia fund passport in the foreseeable future. Adapting the Ucits passport to each Asian jurisdiction requires flexibility and patience as localisation hurdles can still be high. It will not be easy for Asian countries to agree on a Ucits equivalent, but while an Asia region funds passport remains possible, Ucits fund managers in the region still have many reasons to be optimistic given the enormous potential of the Asian mutual fund market.

The 'Boston Consulting Group Global Wealth Report 2013' highlights Asia as the fastest-growing region for private wealth. The region, excluding Japan, increased private wealth to US\$28trn in 2012, a 17% increase on the previous year. With a wealthier, ageing population and a growing middle class, the demand for long-term investment products and safe collective investment vehicles will increase. Despite many other competing products entering the market, Ucits start with a clear advantage.

Fund providers looking to benefit from this enormous potential must first choose the right partners and secure access to local expertise, advice, and distribution networks. Cultural understanding and knowledge as well as the right operational strategy are also key factors when you are looking to acquire a local business or establish a distribution network, partner with a local investment vehicle or start from scratch.

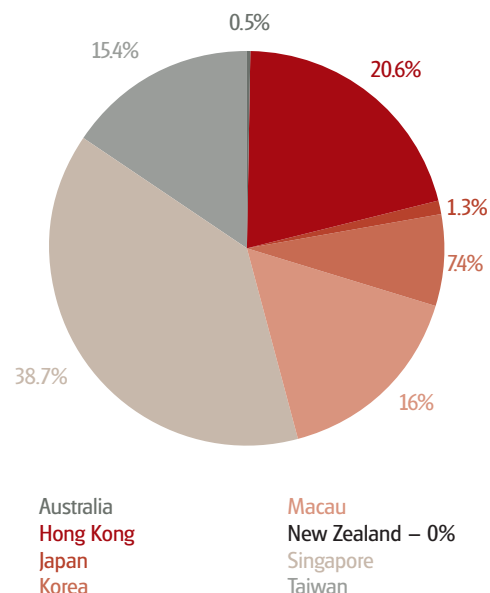
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DISTRIBUTING UCITS FUNDS IN ASIA'S GROWTH MARKET AND BEYOND

The Asian market offers a significant opportunity for international asset managers who are able to navigate these complex issues, and who are able to provide tailored strategies to local markets and remain sensitive to regulatory changes and differences.

The growth prospects for the region and for the funds business remain strong, with overseas investors looking for local

DISTRIBUTION OF LUXEMBOURG'S FUNDS IN ASIA/PACIFIC



asset funds in the drive to gain global exposures. Ucits is an efficient and flexible investment product and is of particular interest for that approach bearing in mind the substantial differences across the Asian region.

Ucits funds account for most of the fund sales in Singapore, Hong Kong and Taiwan. In emerging markets such as Malaysia and Thailand, offshore funds are still mostly wrapped through feeder structures but Ucits is already gaining substantial recognition. Offshore funds in other markets such as China, India and Indonesia are subject to restrictive conditions.

Although the Ucits passport may be a European one, a Ucits fund is likely to be distributed to investors across the globe.

BRIDGING CONTINENTS – LUXEMBOURG TO SINGAPORE AND ASIA

After seeing growing interest from European, Latin American and US investors in investment opportunities in the Asian markets, Alceda established its office in Hong Kong in 2012. Since then, Alceda has worked to benefit from the strong infrastructure, high affinity with alternative investments and the strong demand for Ucits funds using its European and Luxembourg expertise.

As a leading European independent structuring specialist, Alceda works to bring structuring expertise and distribution capabilities together under one roof. As such Alceda helps fund managers from Asia to extend their investor base by offering their investment solutions in a Ucits format for European or Latin American investors. Similarly it is aiding managers from these overseas regions to access Asian investors through a Ucits offering.

Singapore, as a well-established fund centre and where the Ucits brand is widely accepted, serves as our access point to South East Asia.

With total assets of over US\$1.33trn by the end of 2012, Singapore is matching Switzerland as a global centre for managing money according to the Singapore Asset Management Industry Survey of the Monetary Authority of Singapore (MAS).

The strong growth number and the total AuM of the funds in Singapore are based on its strategic location and its benefits from the Asian wealth. Also the interest in alternatives is growing steadily, with hedge fund AuM reaching US\$77.5bn as at end 2012.

The growth shows that the fund management industry in Singapore is quite dynamic and resilient against the economic backdrop of the current global economic environment. We are therefore very optimistic in attracting new managers for the Alceda Ucits platform.

When investing, Asian investors often show a huge interest in the region. They may want Asian products manufactured in Asia, but the need for distribution and the lack of a pan Asian passport is forcing Asian managers to Luxembourg Ucits or SIFs to adjust to the regulatory requirements by the investors. The most important distribution channels we are seeing are banks, insurances and independent financial advisors.

Cayman funds that are very popular in Singapore are now seeking for structured solutions under AIFMD. But



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they do not realise so far the impact and importance the new law will have on managers as the target group of this regulation as well as on investors. Singapore managers will have to adapt to this new environment when they want to step into the European market. We see a huge trend in Asian managers bringing offshore funds into a regulated onshore regime and exporting their Ucits into Europe and other parts of the world.

As a recognised global hub for cross-border investment funds, Luxembourg serves as a natural gateway for investment flows in and out of Asia by giving Asian asset managers a platform to launch their funds in a regulated format. Distribution is then possible not only in Europe but also back into Asia, Latin America and the Middle East.

LOOKING AHEAD

Currently, the Asian presence in the European marketplace for funds is fairly small. But this is going to change. We see that the current investor appetite for alternative strategies across Asia is increasing.

Investors in the US and Europe continue to look East and demand greater exposure to Asia and to managers that are sufficiently savvy, creative and disciplined to deliver compelling products and performance in this region.

There are significant growth opportunities in Asia and a lot of interesting managers and strategies in the region that are attracting the attention of European investors. We expect this to continue and will continue to support this growth. For example, a German pension fund that wants to invest in a long/short equity Asia manager will be able to do so due to Alceda's link between these two parts of the world. Looking longer-term, we are starting to see a lot of interconnectivity between markets in the southern hemisphere – indeed a lot more than ten years ago. We are increasingly seeing demand from Latin American investors for Asia and Australian products and suggest that all these emerging markets and managers take the path via Luxembourg. We expect Luxembourg to continue to function as a global distribution hub. ■