

THE INS AND OUTS OF ASIA

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



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is managing director of Alceda Asia and is responsible for the development of Alceda in Asia and Australia. He has over 25 years' experience in alternative investment, product management and international sales at companies including Citibank, Bank of America, BankersTrust and Barclays Capital in Europe and Hong Kong.

The '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 starts 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 distribu-

tion network, partner with a local investment vehicle or start from scratch.

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 investors looking for local asset funds and the possibility to gain global exposure. Ucits is an efficient and flexible investment product and is of particular interest to many investors, asset managers and in more established markets such as Singapore, Hong Kong and Taiwan can only sell funds directly to retail investors, but Ucits funds still account for most of the fund sales in these markets. Conversely, in emerging markets such as Malaysia, Korea and Thailand, offshore funds can only be sold through feeder fund structures or wrapped products, whereas full distribution of offshore funds is currently not permissible in other markets such as China, India and Indonesia.

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

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ADAPTING THE UCITS
PASSPORT TO EACH ASIAN
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across the globe.

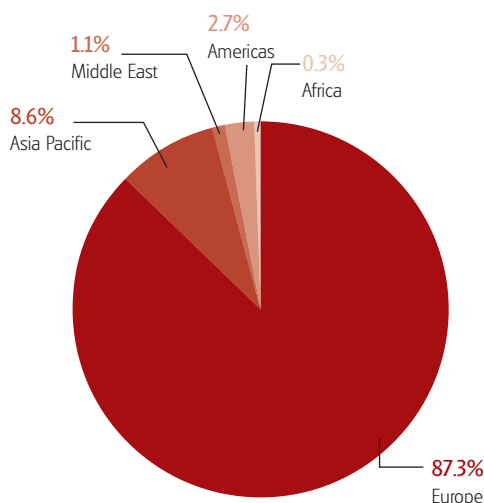
BRIDGING CONTINENTS – LUXEMBOURG TO HONG KONG AND ASIA

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, the company 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.

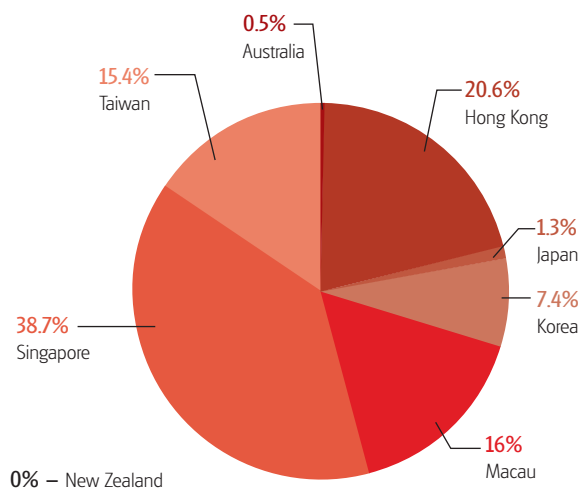
As a leading European independent structuring specialist, Alceda works to bring structuring expertise with distribution capabilities together, helping fund managers from Asia to extend their investor bases by offering their investment solutions in a Ucits format, and aiding international fund managers to look for investors in Asia.

With its established infrastructure, Hong Kong serves as a gateway to the lucrative Asian markets and as a mid-gateway for Asian asset managers as most of them do not

GLOBAL DISTRIBUTION OF LUXEMBOURG'S DOMICILED FUNDS



DISTRIBUTION OF LUXEMBOURG'S DOMICILED FUNDS IN ASIA/PACIFIC



directly invest in Europe. According to the 'Global Fund Distribution report' published by PwC in 2013, more than 70% of the cross-border funds distributed in Hong Kong were domiciled in Luxembourg, with Luxembourg functioning as the central hub for structuring solutions and regulated fund vehicles like Ucits.

The double taxation treaty (DTT) network underpins the dominant role and highlights the bridge between Hong Kong and Luxembourg. Further relationships between Luxembourg and other Asian countries like Thailand, Singapore, India, Japan or China have been deepened to avoid double taxation. Hong Kong-Chinese asset managers are launching Ucits funds in Luxembourg and

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INVESTORS IN THE US AND EUROPE
CONTINUE TO LOOK EAST AND
DEMAND GREATER EXPOSURE TO ASIA
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this will further increase as they are trying to grow their brand outside China.

Chinese asset managers in particular usually prefer to set up their own subsidiary in Hong Kong to familiarise themselves with the regulatory and operational standards before entering the international scene.

Since 2006 the Chinese government introduced two programmes – the Qualified Domestic Institutional Investors (QDII) programme and the Qualified Foreign Institutional Investors (QFII) programme – to open up the Chinese securities market to foreign investors while also allowing Chinese investors to make investments outside China. Luxembourg's memorandum of understanding (MoU) signed in 2008 makes Luxembourg one of the few financial centres to have such an agreement and makes it possible to distribute Ucits in mainland China through the QDII scheme, as well as Chinese institutional investors to invest in Luxembourg-regulated investment fund products.

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 Asian 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. ■