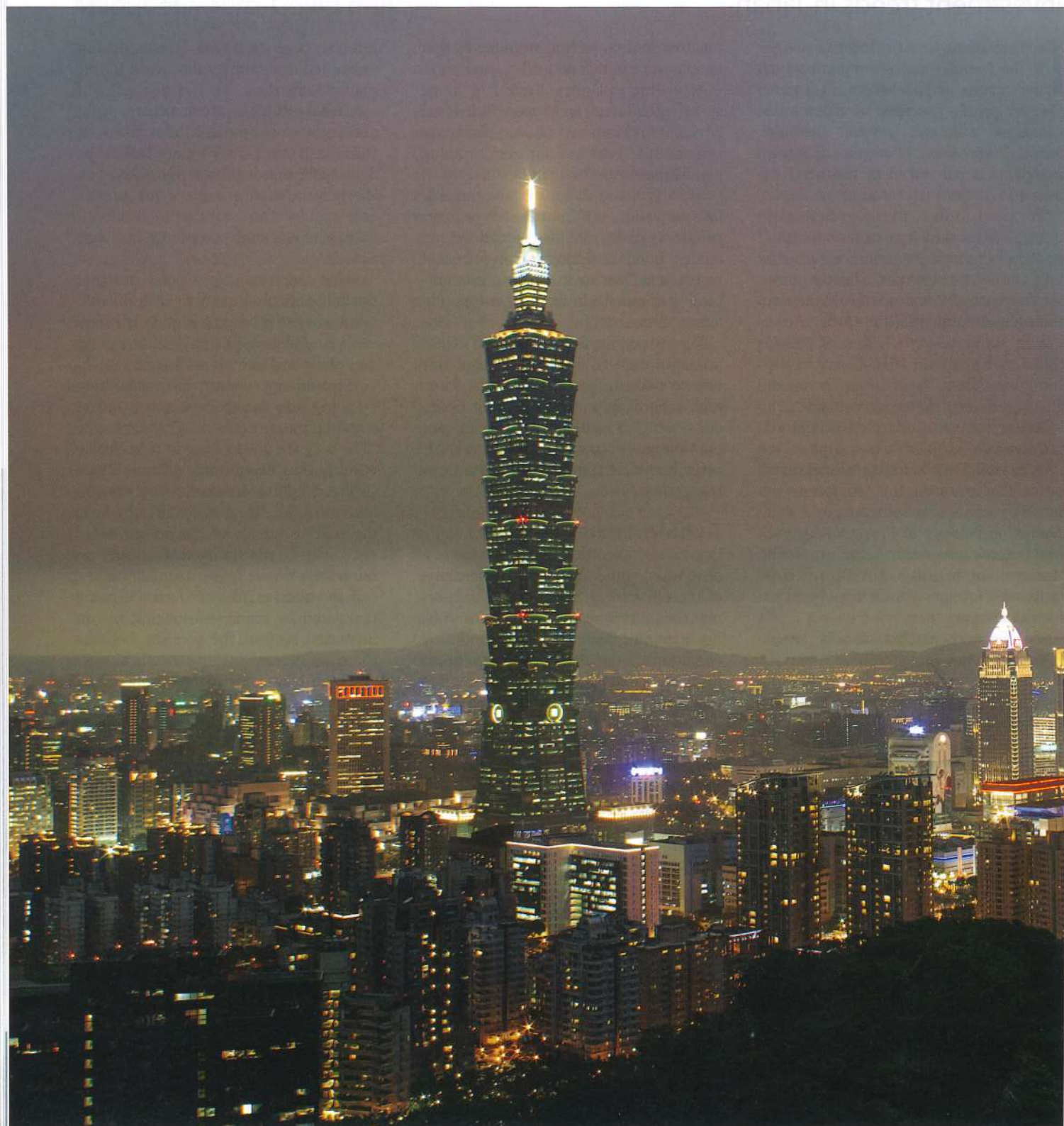


TAIWAN REPORT

No escape

Global market turmoil drags on Taiwan fund market

By Donna Chen*



The first half of 2022 was a truly difficult period for global capital markets, what with a pandemic that seems to have no end, soaring inflation, and then Russia's invasion of Ukraine on February 24. The war has caused Europe's largest refugee crisis since World War II, with more than eight million Ukrainians fleeing the country and a third of the population displaced. The invasion has been widely condemned internationally.

The US and Europe imposed sanctions on Russia, cutting off seven of Russia's 359 banks from the SWIFT system in March 2022, triggering turmoil in Russian capital markets as demand for foreign exchange surged and the ruble plummeted. Investors sold stocks and the Moscow stock market crashed, forcing a stop on trading.

Then came the shock of the big rate hike by the US Federal Reserve in its fight to rein in skyrocketing inflation. The 0.75 percentage point increase in June was the biggest since 1994. And the Fed has signaled more rate hikes through the year, including possibly another one just as big in July.

Taiwan's fund market didn't escape fallout from global markets. As of end-May, assets under management shrank 10.4% to US\$289.1 billion from \$322.6 billion at the end of 2021.

Onshore funds

Assets in Taiwan's onshore fund market fell 7.5% or \$13.6 billion to \$168.2 billion through the first five months of the year in spite of \$14 billion in net sales.

The market consists of 1,000 public funds under 39 securities investment trust enterprises or SITEs, with \$165.9 billion of assets; 77 onshore private placement funds with \$1.5 billion of assets managed by 18 SITEs; and 15 futures trust funds raising \$788 million managed by Yuanta SITE and JKO SITE.

According to figures compiled by Keystone Intelligence, net sales were mostly in domestic equity exchange-traded funds – a total of \$7.6 billion in the five months through May. Net sales of international bonds were \$3.2 billion, and \$2.1 billion for international equity ETFs.

Table 1: Taiwan fund market breakdown (US\$ billion)

Fund Type	May-22	Dec-21	May-21	May-20	May-19
Onshore Public Funds	168.2	181.8	174.3	137.1	100.7
Offshore Funds	120.9	140.8	140.0	107.8	110.8
Total	289.1	322.6	314.3	244.9	211.5

Source: SITCA / Keystone Intelligence

However, domestic equity ETFs also benefitted the most while the market tumbled. Yuanta Taiwan 50 ETF recorded a \$1.48 billion gain in assets in the five months through May, followed by Cathay MSCI Taiwan ESG sustainability High Dividend Yield ETF, up \$1.3 billion; Cathay Taiwan 5G Plus ETF, up \$487 million; Fubon Taiwan 50 ETF, up \$362 million; and Fubon Taiwan Index High Dividend 30 ETF, up \$334 million.

New launches slowed due to increased uncertainty and worries about interest rate hikes. A total of 23 new initial public offering funds were raised in January through May, generating \$2.12 billion of assets under management versus 29 new funds in the same period

last year. The new fund raises mostly favoured equities over fixed income because of rate hike concerns. There were nine international equity funds, five international equity ETFs, three international multi-asset funds, three domestic equity ETFs, two international fixed income funds and one domestic equity fund.

There has been a growing trend where many different share classes are registered, particularly in new IPO funds. This can cause an operational burden in fund management, marketing, accounting and transfer agency. It's now common to see an IPO fund with as many as ten different share classes in spite of a small asset size.

Table 2: Funds with the most AUM growth (January-May 2022)

Ranking	Funds	Change (US\$m)
1	Yuanta Taiwan Top 50 ETF	1,482
2	Cathay MSCI Taiwan ESG Sustainability High Dividend Yield ETF	1,297
3	Cathay Taiwan 5G Plus ETF	487
4	Fubon 9-35 Years US Corporate Bond A ETF	417
5	Cathay Bloomberg Barclays US Corporate A- and Above 10+ Years Liquid ETF	414
6	Fubon FTSE TWSE Taiwan 50 ETF	362
7	Fubon Taiwan Index high dividend 30 ETF	334
8	CTBC Taiwan ESG Leading Semiconductor ETF	331
9	CTBC Battery and Energy Storage Technology ETF	308
10	Cathay Global Autonomous and Electric Vehicles ETF	295

Source: SITCA / Keystone Intelligence

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Table 3: Largest offshore funds (US\$ million)

Rank	Fund	Weight	May-22 AUM	YTD Change
1	Allianz Income and Growth	15.1%	18,222	(260)
2	AB Global High Yield Portfolio	8.6%	10,401	(2,183)
3	AB American Income Portfolio	3.0%	3,570	(833)
4	JPMorgan Global High Yield Bond Fund	2.4%	2,894	(502)
5	NN(L) Emerging Markets Debt Hard Currency	2.3%	2,830	(545)
6	Templeton Emerging Markets Bond Fund	1.5%	1,789	(370)
7	Amundi Funds Emerging Markets Bond	1.4%	1,740	(463)
8	JPMorgan Global Income Fund	1.4%	1,639	(307)
9	BlackRock World Mining Fund	1.1%	1,354	(356)
10	JPMorgan US Technology Fund	0.9%	1,099	(26)

Source: SITCA / Keystone Intelligence

As of end-May, there were a total of 3,660 share classes under 1,000 onshore public funds. These include 1,608 share classes denominated in Taiwan dollars, 926 in US dollars, 673 in Chinese renminbi, 271 in South African rand, and 180 in Australian dollars. There is often a lack of economy of scale in most of the new share classes, and the operational burdens after fund launches can be really heavy.

Offshore fund market

Taiwan's offshore fund market also suffered as the global capital market tumbled. Assets under management declined 14.1% or \$19.8 billion to \$120.9 billion in the first five months of 2022 from \$140.8 billion at the end of 2021, with a small net outflow of \$352 million. There were 1,007 registered offshore funds under 40 master agents as of end-May.

Some 47.1% or \$57 billion of the funds were in non-discretionary money trust accounts; 46.6% or \$56.3 billion in non-omnibus accounts under insurance, corporations, fund of funds and insurance-linked policy mandates; 1.4% or \$1.7 billion in sub-brokerage accounts, and 0.9% or \$1 billion in individual investors' accounts. The non-omnibus

accounts were down \$11.1 billion and non-discretionary accounts were down \$7.8 billion.

Fixed income funds accounted for 40.1% of the market or \$48.5 billion, a decline of 15.8% from the end of last year, while equity funds had a 38.3% share or \$46.3 billion, down 17.6%.

The market share for balanced funds was 20.6% with \$24.9 billion of assets under management, a drop of 4.2%.

Balanced funds saw net sales of \$3.2 billion from January through May versus net outflows of \$2.7 billion from fixed income funds and \$1.1 billion of outflows from equity funds.

The ten largest offshore funds all suffered declines. Allianz Income and Growth Fund, with its 15.1% market share and \$18.2 billion of assets under management is now the largest offshore fund, a decline of \$260 million in spite of \$3.2 billion in net sales. AB Global High Yield Portfolio came in second with an 8.6% market share or \$10.4 billion of assets, down \$2.2 billion.

AB American Income Portfolio had a 3% market share and \$3.6 billion of assets, followed by JPMorgan Global High Yield Bond Fund with a 2.4% market share and \$2.9 billion of assets, and

NN(L) Emerging Markets Debt Hard Currency generated a 2.3% market share with \$2.8 billion of assets.

Master agents

There have been a number of changes in the master agent market. As of end-May, there were 40 offshore fund master agents consisting of 25 SITES, and 15 securities investment consulting enterprises or SICES.

Figures compiled by Keystone Intelligence show that there were four master agent changes last year, including Franklin Templeton SICE acting as the new master agent for Legg Mason funds starting in May 2021 after the US asset manager acquired Legg Mason in 2020.

Taichung Bank began engaging in the master agent business by acting as the master agent for GAM and GAM(Lux) funds from April 2021, while Transglobe SICE acted as the master agent for Value Partners funds starting in February 2021.

There have already been three changes announced thus far in 2022. Carmicgnac left the Taiwan market in January, Manulife SITE is to act as the new master agent for abrdn funds from July, and Nomura SITE is the new master agent for Janus Henderson funds.



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