



FUND MANAGERS

by Christina Wang | 2 days ago

## Criteria review called for Taiwan “deep-cultivation plan”

AllianceBernstein, Allianz GI, Eastspring, Franklin Templeton, JP Morgan AM and Schroders again win programme awards in Taiwan. But there are concerns on potential polarisation.





Will there be any new winners next year?

Six foreign asset managers have **once again** received awards allowing them increased access to Taiwan's funds market this year. But this has led to increasing concerns from industry observers that the industry is becoming polarised and has sparked discussion on whether selection criteria should be adjusted to encourage a greater commitment from foreign firms to the local market.

This is the fifth year that Taiwan's Financial Supervisory Commission (FSC) has held the award programme as part of its 'deep-cultivation plan', started in 2013 to encourage stronger commitment to the local investment industry by foreign managers.

This year's beneficiaries are again AllianceBernstein, Allianz Global Investors, Eastspring, Franklin Templeton, JP Morgan Asset Management and Schroders, FSC **announced** at the end of last month.

JP Morgan AM has now won the award in all five years, while AllianzGI has been successful in the four years since 2014. The other four have been handed privileges for the second consecutive time this year.

All the privileges chosen—which could include the ability to introduce new types of funds to Taiwan, faster approval of funds, the ability to submit more products for approval at one time or the granting of higher fund exposure to the Mainland Chinese securities—will be valid from October 1 to September 30.

## Growing polarisation

The continuing access privileges these firms enjoy could lead to a more polarised industry, Donna Chen, founder and president of Taipei-based market research house Keystone Intelligence told *AsianInvestor*.

For the fund approval, for example, foreign fund managers that do not have the privileges can only submit one fund for approval at a time and the approval process usually takes five months, Chen said.

So it is a big advantage for awarded foreign managers who gain for faster fund approval or the ability to submit three funds at a time. “If we consider that with multiple-year effect, we’ll find how huge the gap will be between the big and smaller asset managers,” Chen said.

The polarisation is obviously not good for the industry, she added. The market needs more and better products introduced from a larger variety of asset managers, she said.

The business of offshore asset managers in Taiwan is already fairly concentrated. As of August 31, the largest 10 foreign fund houses held an 83.5% market share of offshore funds sold in Taiwan with \$93.65 billion in combined assets under management (AUM), and the five biggest accounted for 62.3% of the market, with \$69.79 billion, according to Keystone data.

As of August there have been 29 new foreign funds approved for sale in Taiwan, according to Keystone. And the data demonstrates the strong advantage the privileged firms have enjoyed in introducing new funds to Taiwan.

Out of the 21 foreign firms which have gained approval for their new funds in the first eight months, only three firms had more than three funds approved. These were Schroders (which received five), Allianz GI (three) and Eastspring (also three)—the three fund houses also won the privileges last year.

Pictet was the only asset manager that despite not having won an award had two funds approved during the period, while 17 other firms had only a single fund approved.

## Fundraising privilege

One benefit of the award is that a foreign manager can have Taiwanese investors accounting for up to 70% of any one fund. The cap for other overseas players is 50%. This gives awardees the ability to continue raising capital from Taiwan for their funds.

As of June 2017, 31 registered offshore funds had over 50% of their entire global assets in Taiwan, including AllianceBernstein (with eight funds), Franklin Templeton (four), JP Morgan (four), Barings (three), Allianz GI (two), NN (2), Pinebridge (two). Meanwhile BOCI-Prudential Asset Management, LionGlobal, Old Mutual, Schroder, Threadneedle and UOB all had one fund each, according to Keystone data.

Of these, the two funds from Pinebridge, and one fund each from Barings, Threadneedle and UOB have already exceeded the 70% threshold, so according to a new rule effective October 1 2017 whether they have the privileges or not those funds cannot raise any more capital from Taiwan.

None of the six award-winning firms have breached the 70% threshold yet, so the 18 funds from AllianceBernstein, Allianz GI, Franklin Templeton and JP Morgan can continue to raise capital in Taiwan, until they reach the limit.

## Criteria review

Meanwhile, some criteria will be adjusted to better measure foreign asset managers' commitment to Taiwan, Chen said.

One is a criterion measuring the scale of asset management of a foreign asset manager in Taiwan, with fund revenue used as the metric. However, tax contribution to Taiwan could be a better parameter to gauge actual contribution into Taiwan, Chen said.

For the criteria measuring talent development, Chen doubted whether sending staff for overseas training, or providing intern training with the cooperation of universities would really help retain the talents in Taiwan.

“They may still go to Hong Kong or other overseas markets after a while,” Chen said.

## Selecting privileges

There are eight criteria on which the deep-cultivation award is based, covering three broad categories: Taiwan onshore presence, local AUM and cultivation of local talent.

Award winners must pass the basic threshold for these three main areas, and at least four criteria in total, to enjoy one incentive. Those that meet five criteria or more can choose two benefits—the maximum number a firm can hold at one time—from a choice of seven incentives\*, adding one more from last year.

This year US-based AllianceBernstein met six of the eight criteria, while Germany's AllianzGI and UK-based Schroders met five, so they can enjoy two privileges. These three firms all have chosen to be allowed to introduce new types of funds to the market.

For the other option, AllianceBernstein chose to have faster approval of funds, AllianzGI to be able to submit three offshore funds for approval at a time (overseas firms without such a privilege can only submit one at a time), and Schroders elected to have its offshore funds sold in Taiwan allowed a maximum 30% exposure to mainland Chinese securities (whilst overseas firms without this privilege are capped at 10%).

Eastspring, Franklin Templeton and JP Morgan each met four criteria, so could select one privilege. Eastspring and JP Morgan AM each chose to introduce new types of funds to the Taiwanese market. Franklin Templeton chose to be able to submit three funds for approval at a time.

### \*Top-10 Taiwan Offshore Funds

Ranking	Series Fund	AUM US\$ million			
		08/2017	12/2016	YTD	YTD Change
1	AB	23,853	19,133	4,720	24.7%

2	Templeton	15,341	12,110	3,231	26.7%
3	JPMorgan	11,875	11,031	845	7.7%
4	BlackRock	9,454	8,869	585	6.6%
5	Allianz	9,266	6,083	3,182	52.3%
6	Fidelity	8,423	8,479	(56)	-0.7%
7	Schroders	4,746	4,568	178	3.9%
8	Pioneer	4,311	3,010	1,302	43.2%
9	NN	3,810	3,784	26	0.7%
10	Pimco	2,571	2,148	424	19.7%

(Source: Sitca/Keystone Intelligence)

***\*The seven incentives are:***

- *the submission of three offshore funds for approval a time;*
- *introduction of new types of funds into Taiwan market;*
- *faster approval for offshore fund applications;*
- *faster approval for funds that involve derivatives;*
- ***Higher permission in each offshore fund's exposure to mainland Chinese securities to up to 30% (newly added this year)***
- *a lower required number of product analysts at a fund manager's master agent; and*
- *a lower number of master agent staff required to serve distributors.*

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