



ALTERNATIVES

by Christina Wang | 1 day ago

Fund houses gear up for Taiwan PE opportunities

Investment industry experts say new rules allowing Taiwanese mutual fund houses to run private equity funds will benefit both local and foreign managers. Green energy will be a big focus.





Mutual fund houses in Taiwan can, as of this month, launch private equity funds – a development expected to boost local assets under management, create a longer-term investment focus and help foreign PE firms partner with local managers on domestic projects.

Key areas of investment for the new strategies will be green energy, the digital economy and elderly care, as they are sectors the government particularly wants to develop, said Ray Huang, secretary general of the Securities Investment Trust and Consulting Association (Sitca).

He told *AsianInvestor* the rule change was a significant breakthrough, as it allowed fund houses to invest directly into the real economy.

The Financial Supervisory Commission (FSC) had said in a statement on August 1 that the move would help increase fund industry assets.

It will also help create a more long-term outlook, said Donna Chen, founder and president of Taipei-based market research house Keystone Intelligence. “Through PE funds, fund managers can keep assets longer,” she told *AsianInvestor*. Retail investors

in Taiwan tend to have a short-term focus, which has led to a high turnover rate of mutual funds, she noted.

The industry is also eyeing the removal of restrictions that prevent domestic insurance firms from investing in local PE funds. Insurers in Taiwan can currently invest in venture capital but not PE funds. Huang said this was under discussion and that it would happen soon.

Fund pipeline

Fund houses need to gain FSC approval to conduct PE business, Huang said, but there is no need to apply for approval to launch individual PE funds thereafter. Local firms are responding to the opportunity.

Cathay Securities Investment Trust, the largest asset manager in Taiwan, is preparing to raise the first PE fund, targeting NT\$10 billion (\$330 million). It will invest in renewable energy projects such as wind farms, with an expected annualised return of 6% to 7%.

Taiwan's administration aims to end the country's use of nuclear energy by 2025 and replace it with renewable energy. To this end, the government has earmarked NT\$24.3 billion of public money for green projects, with an estimated NT\$1.8 trillion of investment to come from the private sector. Green power projects provide annual returns of 6%-8%, Huang estimated.

JP Morgan Asset Management's Taiwan business also plans to launch a PE fund.

The regulator did not allow mutual funds to launch PE funds previously because it felt local fund houses did not have much experience in this area, said Patrick Cheng, vice president in the discretionary portfolio management department at Yuanta Securities Investment Trust. But the government now wants private capital to support infrastructure development, Cheng told *AsianInvestor*, as is the case in other countries.

Yuanta hasn't sought approval to do PE business yet but has started looking at it, he noted; it will wait for the right time to source attractive projects and investors.

Foreign partnerships

Despite the government's previous concerns about mutual fund houses investing in private equity, Huang is confident in these firms' ability to run such strategies. They have researched and invested in the relevant industries before, he said, and can calculate the costs and returns properly.

Moreover, the industry had already been preparing for the new business, he added, and Sitca had proposed more than a year ago to the regulator that it ease the rules.

Some asset managers have already put in place and trained dedicated staff for PE fund management and have been learning from experienced foreign institutions, he noted, and should continue to do so.

For their part, many foreign PE funds have shown interests in Taiwan's wind power industry, Huang said, but these projects require close monitoring, so they will need help from local partners.

Meanwhile, there is a lot of other potential business for local PE managers, such as investment in overseas projects and funds of funds, he added.

Look out for part two of this series, which will assess Taiwanese asset owners' appetite for investing in local PE funds.

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