

RAINMAKER INFORMATION Pty Ltd

Level 2
151 Clarence Street
Sydney NSW 2000 Australia
www.rainmaker.com.au

Telephone 61 2 8234 7500
Facsimile 61 2 8234 7599
Email clientservices@rainmaker.com.au

For further information regarding any aspect of this report,
please contact either:

Client Services
Rainmaker Information

Email Clientservices@rainmaker.com.au

Telephone 02-8234 7500
Facsimile 02-8234 7599

Subscribers are also invited to contact Rainmaker Information
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Australia's funds management global footprint: a stocktake of overseas sourced funds under management

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Introduction

Objective of this report

Rainmaker Information Pty Ltd has been commissioned by the Investment and Financial Services Association (IFSA) to review the extent to which the Australian investment management industry sources funds under management (FUM) from overseas clients.

Background

The Australian investment management market was estimated by both Rainmaker and the Australian Bureau of Statistics (ABS) to be valued at \$1.4 trillion as at End December in locally sourced FUM. The significant size of this market—it exceeds Australia's \$1.1 trillion GDP—against the context of the rapidly developing sophistication of Asia's economies, Australia's disproportionately high geo-economic and political global footprint, and Australia's world leading role in superannuation, suggests Australia has considerable potential to leverage these expertise and intellectual skills to become a major financial services player around our geographic region.

Overlay upon this the just announced phased-in decrease of foreign investment withholding tax which has long been regarded as a major disincentive for overseas investors to use Australian investment managers, and the scene is set for Australia to rapidly escalate its potential in this market.

This opportunity for Australia's investment management industry to become a major exporter has already encouraged the Australian investment management industry and government agencies to work together in partnership to facilitate the initiatives as much as possible. But despite this enthusiasm, little is actually known about the extent to which Australia already exports its investment management expertise.

To help fill this information gap, this pilot study survey project should be seen as an important step in gathering market intelligence about the extent to which Australian investment managers source FUM from overseas clients, the countries these funds are sourced from and from which types of clients.

Research methodology

Rainmaker has been monitoring, benchmarking and reviewing financial services in Australia since 1992 and has developed a structured research program that includes regular surveys of investment managers, super funds, consultants, platforms and financial advisory groups.

The component of this research that has been used to support this project is the investment manager FUM survey that covers approximately 150 managers each quarter. Reflecting the additional information required, Rainmaker and IFSA developed a customised questionnaire that was sent to the 20 largest investment managers operating in Australia as identified by Rainmaker.

The responses to this survey were then analysed using results from the regular Rainmaker and ABS surveys of the Australian investment management market.

About Rainmaker

The Rainmaker group was founded in 1992 and has established a reputation as one of Australia's leading information, market intelligence, research, publishing, events and communications groups in the financial services marketplace.

Through its range of information products that include market directories, research reports, analytical tools, web services, news gathering, magazines, journals, and internet TV that reach deep into the wholesale and retail markets, Rainmaker is able to deliver totally integrated information solutions to help organisations understand their market, its opportunities and to communicate this with their stakeholders.

Rainmaker consults to many of Australia's leading super funds and wealth management groups, investment managers, platforms, adviser groups and relevant government regulators and interest groups. Rainmaker executives also regularly appear at industry conferences and in the national and local media as thought leaders and industry commentators.

The Australian investment management market

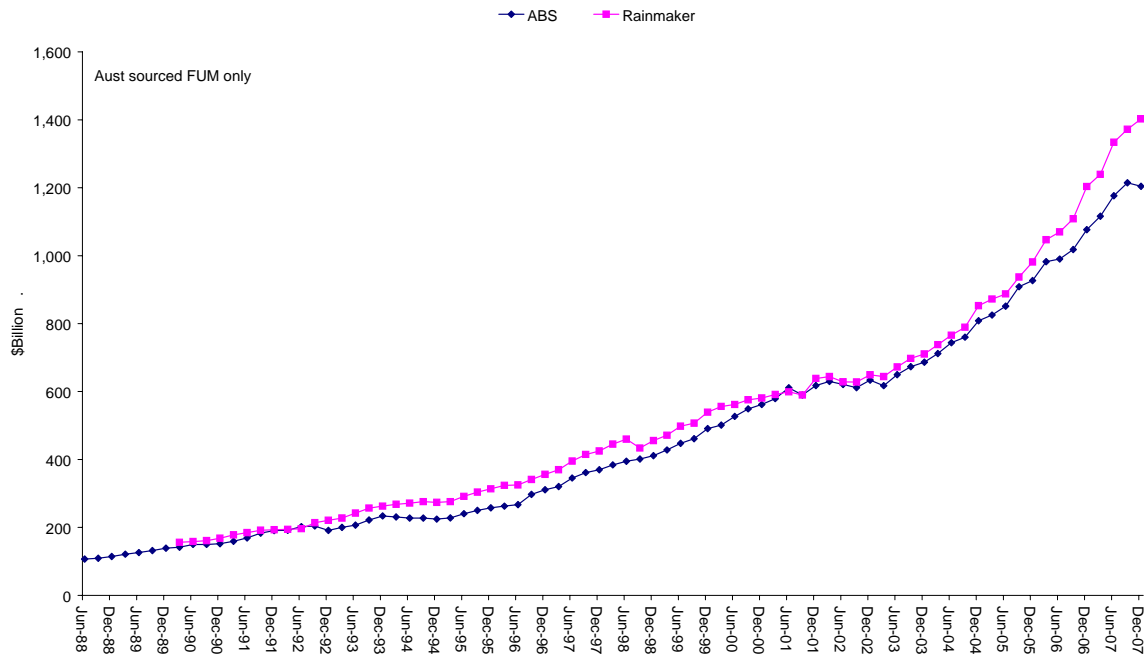
Market size

The Australian sourced investment management market at end December 2007 was estimated by Rainmaker to be \$1.4 trillion and by the ABS to be \$1.2 trillion in net or consolidated FUM. These monies are, according to the Rainmaker survey, sourced from 147 investment managers.

Reflecting the continued robustness of the market underpinned by compulsory superannuation contributions and expansion of the market beyond this base, the market increased 16.5 per cent during 2007 according to Rainmaker despite the fall in returns experienced in the second half of the year due to the US sub-prime contagion. The ABS survey in comparison shows the market to have grown by 11.9 per cent, noting the difference is due—in Rainmaker's opinion—to the different methodologies and coverage parameters of the respective surveys¹.

This growth momentum continues the upward trend in FUM that has occurred since Rainmaker began surveying the market in 1992. Indeed, in the past decade FUM has increased by \$978 billion according to Rainmaker or 12.7 per cent per annum, or by \$835 billion or 12.5 per cent per annum according to the ABS. See figure 1.

Figure 1: FUM market - ABS v Rainmaker



Largest managers

The investment management market is very diverse with a large number of investment managers competing aggressively for business. Despite this the importance of economies of scale and distribution networks in giving advantages to the managers who have invested in asset gathering channels and infrastructure mean that the market has become reasonably concentrated with the five largest managers controlling 30 per cent of the market, the ten largest controlling 51 per cent and the 20 largest controlling 69 per cent.

The implication of this concentration is that to understand the major dynamics confronting the market, at least in macro-market terms, observers are primarily required to focus on leading managers only. Conversely smaller managers while not dominating FUM are more indicative of future market directions.

For example, smaller managers may be more able to quickly target emerging niche asset classes or distribution channels compared to larger and longer established major brands. The largest investment managers

1. For an explanation of the methodological differences between the Rainmaker and ABS survey, refer Appendix A.

Table 1: Largest investment managers

Rank	Manager	FUM \$B	Market share	Origin
1	Colonial First State Global Asset Management	121.1	7.6%	Australia
2	AMP Capital Investors Limited	98.7	6.2%	Australia
3	Macquarie Banking Group	98.6	6.2%	Australia
4	MLC Investment Management	82.3	5.2%	Australia
5	State Street Global Advisors Australia	75.9	4.8%	US
6	Queensland Investment Corporation	71.8	4.5%	Australia
7	ING Australia Limited	70.4	4.4%	Netherlands
8	Vanguard Investments Australia Limited	66.2	4.2%	US
9	Future Fund Management Agency	65.6	4.1%	Australia
10	AllianceBernstein Australia Limited	62.3	3.9%	US
11	Barclays Global Investors Australia Ltd	44.6	2.8%	UK
12	BT Financial Group	39.7	2.5%	Australia
13	Perpetual Investments	37.2	2.3%	Australia
14	Deutsche Asset Management (Australia) Limited	30.0	1.9%	Germany
15	Challenger Financial Services Group Limited	25.7	1.6%	Australia
16	UBS Global Asset Management (Australia) Ltd	22.9	1.4%	Switzerland
17	Credit Suisse Asset Management (Australia) Limited	22.6	1.4%	Switzerland
18	Perennial Investment Partners Limited	22.5	1.4%	Australia
19	BlackRock Investment Management (Australia) Limited	21.0	1.3%	US
20	BNY Mellon Asset Management Australia Limited	20.9	1.3%	US
	The rest	491	31%	
	Total Aust sourced FUM (unconsolidated)	1,591	100%	

are Colonial First State, AMP, Macquarie, MLC, State Street Global Advisors, QIC, ING, Vanguard Investments, the Future Fund Management Agency and Alliance Bernstein. See table 1.

Table 1 also illustrated the global nature of the Australian investment management market as half the 20 largest investment managers have overseas origins, predominantly from the US and Europe. Notwithstanding this overseas influence, large and long established local brands—through their distribution networks—do have an advantage as they tend to dominate the upper echelons of the market.

For example, while the largest 20 managers are equally split between overseas originated and indigenous firms, four of the largest five and six of the largest 10 are Australian in origin, with the implication that managers originating overseas tend to dominate the second and third tier of investment managers while home-grown managers dominate the top tier.

The major inference of this however is that the Australian investment management market is cosmopolitan, highly influenced by overseas practices and very open to the new ideas these overseas managers present. Indeed this is why the Australian investment management market is often described as one of the most open and hotly contested FUM markets in the world.

Asset class profile

Reflecting the openness of the Australian investment management market, the asset classes into which managers invest has changed considerably in recent years, particularly away from traditional domestic assets towards more global oriented assets. For example, while Australian shares in 1997 made up 28 per cent of the investments held by managers in Australia, by 2007 this had dropped to 26 per cent. Conversely international equities which in 1997 made up 15 per cent by 2007 had grown to 19 per cent. See table 2.

This trend away from just domestic to global assets is reflected among fixed interest investment as well. Table 2 also shows how Australian fixed interest bonds made up 21 per cent of investments but by 2007 this had plummeted to 11 per cent. Conversely overseas fixed interest bonds had almost doubled their market share from 3 to 5 per cent during this time.

Meanwhile the Rainmaker survey shows that property increased slightly over the decade from 12 to 13 per

Table 2: Asset class profile 1997 compared to 2007

	FUM \$B			Allocation		
	Dec-97	Dec-07	Change pa	Dec-97	Dec-07	Change
Aust equities	119	410	13%	28%	26%	Down
International equities	62	309	17%	15%	19%	Up
Property	51	209	15%	12%	13%	Up
Aust fixed	87	181	8%	21%	11%	Down
International fixed	14	78	19%	3%	5%	Up
Cash	68	222	12%	16%	14%	Down
Other/alternatives	23	183	23%	5%	11%	Up
Total (unconsolidated)	424	1,591	14%			

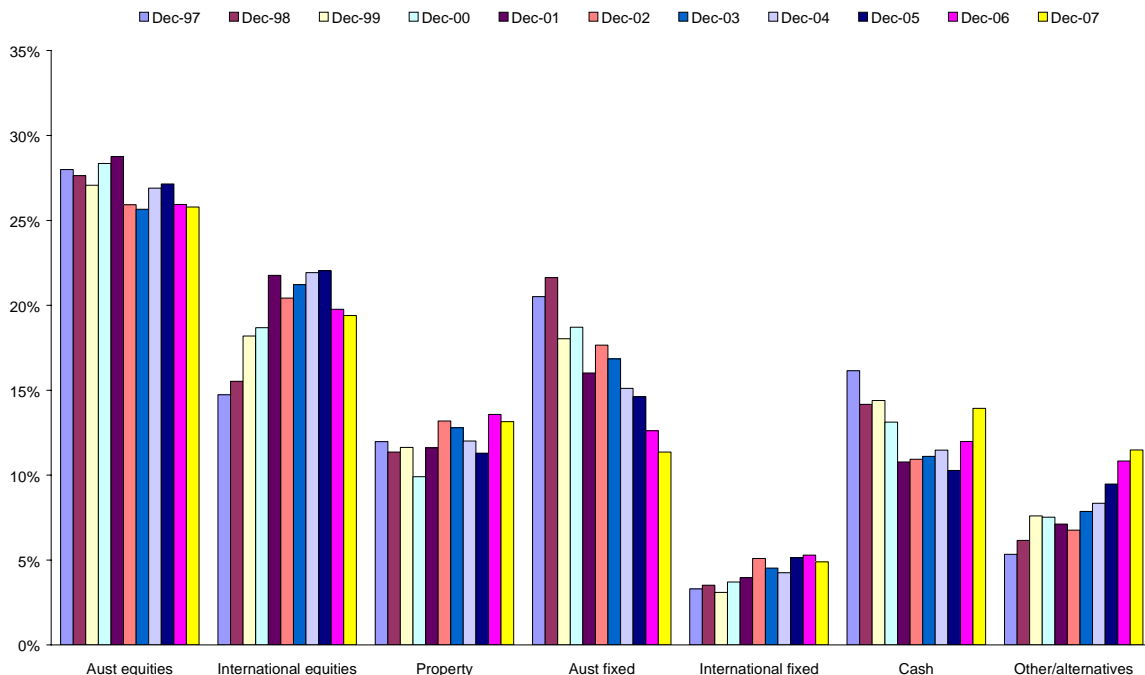
cent as the share held in traditional cash fell from 16 to 14 per cent. This more progressive attitude to asset allocation is best illustrated by the dramatic increase in assets held in the alternative classes of infrastructure, hedge funds and private equity which more than doubled from 5 to 11 per cent. See figure 2.

This asset class shift is further highlighted by examining the relative rate of change in FUM for each asset class as the three fastest growing asset classes were alternatives (up 23 per cent pa), international fixed interest (up 19 per cent pa) and international equities (up 17 per cent pa).

The traditional asset classes of Australian equities (up 15 per cent pa), cash (up 12 per cent pa) and Australian fixed interest (up 8 per cent pa) being the three slowest further reinforces this shift. Viewed another way, the progressive asset classes all achieved above average growth compared to the traditional asset classes that all achieved below average growth. Property increasing at a pace midway between these two groups—progressive versus traditional—reflects the hybrid nature of property.

The result of these triple forces driving the Australian investment market, being its robust growth, its openness to influences of international competitors and the shift to progressive asset classes, signifies one crucial thing: that the Australian investment management market has an appetite for growth and new ideas. This desire for expansion is also why the Australian market no longer appears satisfied with just organic Australian-based growth with the next natural progression being to develop export capability.

Figure 2: Asset class profile of Australian sourced FUM 1997-2007



Overseas sourced FUM

Estimated amount of overseas sourced FUM

While Rainmaker and the ABS have arguably broadly similar estimates for the size of the Australian sourced investment industry—notwithstanding their figures being sourced from separate and independent surveys—their respective estimates for the amount of overseas sourced FUM however differ considerably as according to Rainmaker \$161 billion in FUM is sourced from overseas clients while according to the ABS the figure is only \$58 billion.

Despite the contrasting figures the definitions used by Rainmaker and the ABS for what constitutes overseas sourced FUM are consistent in that the ABS defines it as FUM that is sourced from non-Australian entities or entities domiciled outside Australia. Rainmaker has extended this definition to include monies sourced from overseas domiciled entities that can include overseas pension funds, sovereign funds, insurers, institutional investors, high net worth individuals or undefined sources for which Australian investment managers derive funds management revenue.

These difference between the Rainmaker and ABS measures being so extreme obviously point to fundamental variances in their survey methodologies, definitional perspectives and even in sample coverage. These differences can be interpreted as Rainmaker's figure constituting an upper estimate and the ABS's figure constituting a lower estimate, resulting in a mid-point estimate of \$110 billion likely to be sourced from overseas clients. See figure 3.

This conservative mid-point estimate translating to overseas sourced FUM equivalent to 7.8 per cent of consolidated FUM is still tremendously significant. For example, it is equivalent to almost one-third the entire Australian equities sector, two-thirds the entire Australian fixed interest sector, half the entire cash sector or two-thirds the entire alternatives investment sector. Indeed it also equivalent to the entire size of Australia's biggest investment manager or nearly twice the size of the Future Fund.

Overseas sourced FUM is also reporting significant growth of 25 per cent per annum given that in March 2005 (when Rainmaker first commenced surveying for this amount on its FUM surveys) overseas sourced FUM amounted to a mid-point estimate of \$62 billion, recalling that overall Australian sourced FUM only grew 19 per cent per annum over the same period.

Overseas sourced FUM growing one-third faster than Australian sourced FUM also illustrates how impor-

Figure 3: Overseas sourced FUM - ABS v Rainmaker

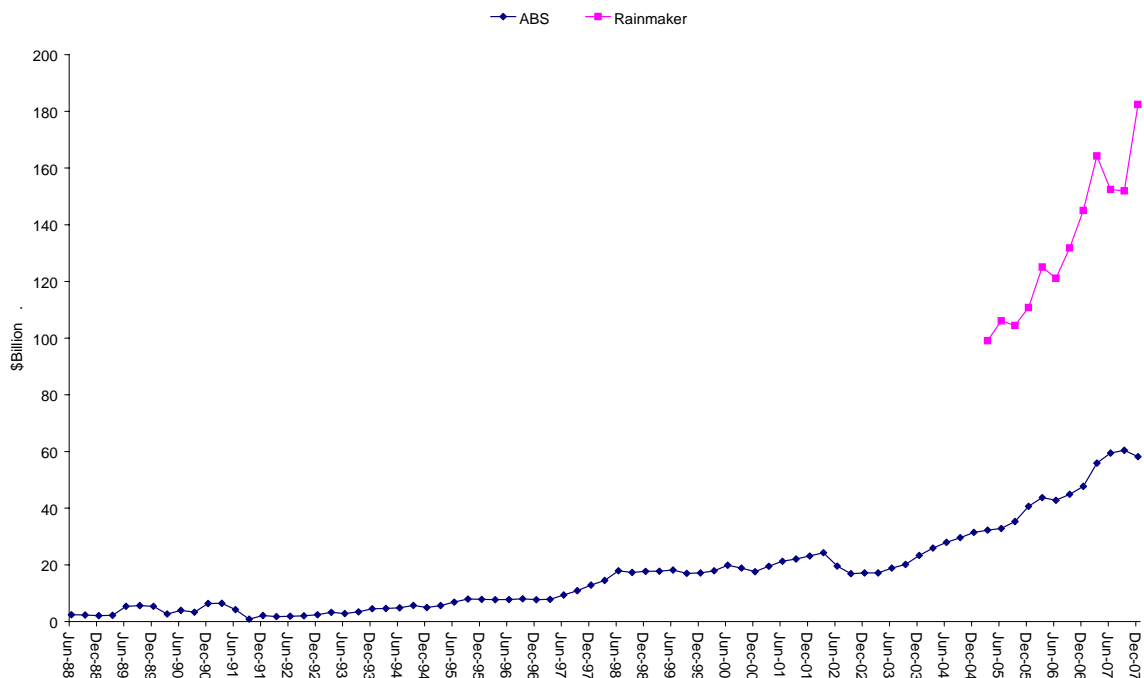
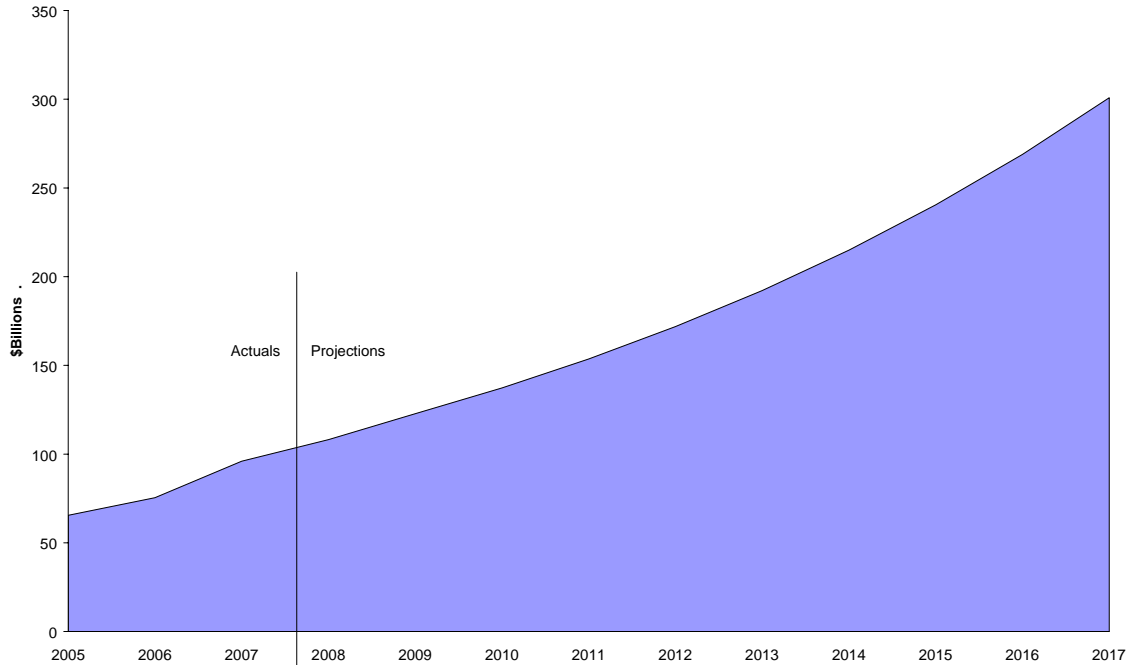


Figure 4: Projected value of overseas sourced FUM



tant it is becoming to the Australian investment management market. By contrast over the past two years cash holdings increased 40 per cent pa, alternative investments increased 32 per cent pa and property FUM increased 29 per cent pa.

This above average growth rate also means it is becoming proportionally more important for the local FUM industry as in March 2005 the midpoint of the Rainmaker and ABS estimate for overseas sourced FUM represented an amount equivalent to 7.1 per cent of locally sourced FUM while now it represents a proportion almost one-tenth larger. Moreover, even if the relative ratio of overseas sourced FUM compared to consolidated Australian sourced FUM was to show no annual increases at all, Rainmaker conservatively projects that within a decade overseas sourced FUM could amount to \$301 billion. See figure 4.

Largest managers of overseas sourced FUM

Rainmaker identifies 52 separate investment managers operating in Australia that source FUM from overseas clients. Compared to the 147 that operate in Australia, at least if measured by those that provide Australian sourced FUM figures to Rainmaker as part of the quarterly survey, this means that slightly more than one-third of managers are already involved in the export of investment management services.

Table 3: Market concentration

	Aust sourced FUM		OS sourced FUM	
	FUM \$B	Share	FUM \$B	Share
Biggest 5	477	30%	120	75%
Biggest 10	813	51%	137	85%
Biggest 20	1,100	69%	154	95%
Ranked 1-5		30%		75%
Ranked 6-10		21%		10%
Ranked 11-20		18%		11%
Ranked 21-end		31%		5%
Total	1,591	100%	161	100%

Table 4: Largest investment managers with OS sourced FUM

Rank	Manager	FUM \$B	Market share	Origin
1	Colonial First State Global Asset Management	43.3	26.8%	Australia
2	Macquarie Banking Group	26.1	16.2%	Australia
3	MLC Investment Management	23.9	14.8%	Australia
4	AMP Capital Investors Limited	15.5	9.6%	Australia
5	Vanguard Investments Australia Limited	11.7	7.2%	US
6	UBS Global Asset Management (Australia) Ltd	3.7	2.3%	Switzerland
7	ING Real Estate Investment Management (Aust) Limited	3.7	2.3%	Netherlands
8	State Street Global Advisors Australia	3.4	2.1%	US
9	Platinum Asset Management Limited	3.1	1.9%	Australia
10	Aberdeen Asset Management	2.3	1.4%	UK
11	Portfolio Partners Limited	2.2	1.4%	Australia
12	Credit Suisse Asset Management (Australia) Limited	2.2	1.4%	Switzerland
13	PIMCO Australia Pty Ltd	2.0	1.3%	US
14	Barclays Global Investors Australia Ltd	2.0	1.2%	UK
15	Deutsche Asset Management (Australia) Limited	1.9	1.2%	Germany
16	Maple-Brown Abbott Limited	1.9	1.2%	Australia
17	Ausbil Dexia Limited	1.6	1.0%	Australia
18	Balanced Equity Management Pty Limited	1.4	0.8%	Australia
19	Fidelity Investments Australia Limited	1.1	0.7%	US
20	GPT Group	1.0	0.6%	Australia
	The rest	8	5%	
	Total Aust sourced FUM (unconsolidated)	161	100%	

The overseas sourced FUM market in Australia is more than twice as concentrated as the overall market. While the five biggest managers of Australian sourced FUM control 30 per cent of the market, the five biggest managers of overseas sourced FUM control 75 per cent of the market.

This more intense concentration is repeated further down the ranking order as while the 10 biggest managers of Australian sourced FUM control 51 per cent of the market, the 10 biggest managers of overseas sourced FUM control 85 per cent of the market. See table 3.

Reinforcing this top-end concentration, managers ranked 11-20 for Australian sourced FUM control 18 per cent of the market compared to controlling just 10 per cent of overseas sourced FUM while 31 per cent of Australian sourced FUM is controlled by managers ranked 21st to the end compared to these market rankings controlling only 5 per cent of OS sourced FUM.

Similar to the Australian sourced FUM market, half the leading managers of OS sourced FUM are indigenous to Australia and of these managers Australian-originated managers account for the top four places with a 68 per cent market stranglehold.

As detailed in table 4, the leading managers of overseas sourced FUM are Colonial, Macquarie, MLC, AMP, Vanguard Investments, UBS, ING Real Estate, State Street Global Advisors, Platinum and Aberdeen.

The pilot study questionnaire

Now that we have established the importance of overseas sourced FUM and its potential for growth as a source of export revenue for the Australian investment management industry, the next questions are to better understand from what type of clients these monies are being obtained.

To ascertain this Rainmaker and IFSA jointly conducted a pilot study among 20 major investment managers operating in Australia to which 16 provided at least partial responses. Note that for several managers only partial responses were realistically possible given not all managers yet have systems in place to readily provide detailed reports about their overseas sourced business activities.

Table 5: The pilot study questionnaire response levels

Total estimated overseas sourced FUM	Rainmaker	161
	ABS	58
	Mid point	110
Pilot study questionnaires administered		20
Questionnaires received		16
Sample analysis by dimension	FUM coverage \$B	Number
<i>Total surveys received</i>		
	119	16
By client source segment	61	11
By client country of origin	119	13
By client country of destination	95	7
By assets allocation	119	13

More specifically, 13 managers representing \$119 billion in overseas sourced FUM provided details of the country origin and asset allocation of these investments, while 11 managers representing \$61 billion in overseas sourced FUM provided details of the source market segments. See table 5. Each dimension will now be analysed in turn.

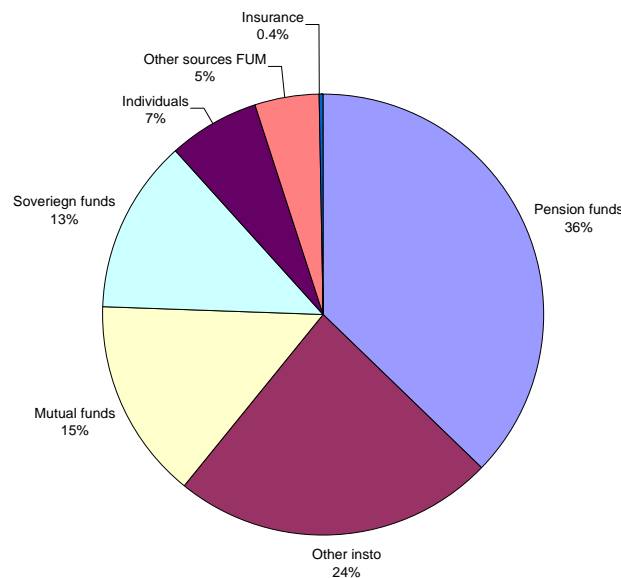
Types of clients

To explore the type of client, Rainmaker sought to discover whether the FUM was being sourced from overseas based pension funds, mutual funds, sovereign funds, insurers, other institutions, private individuals or other difficult to define segments.

As detailed in figure 5, the pilot study revealed that from a sub-sample comprising \$61 billion from 11 investment managers, 36 per cent of overseas sourced FUM was sourced from pension funds, 15 per cent was from mutual funds, 13 per cent was from sovereign funds, and 24 per cent was sourced from other institutional managers. Seven per cent was sourced from individuals, less than one per cent from insurers and 5 per cent from undefined other sources.

With 88 per cent of overseas sourced FUM being obtained from the major groupings and 64 per cent com-

Figure 5: Types of clients providing OS sourced FUM



ing from pension, sovereign and mutual funds it is clear that the major institutional business units that dominate the Australian market are also those dominating this market as well. More crucially, the potential for growth among these segments further suggests massive potential for growth if Australian investment managers can tap into these FUM business streams.

For example, Watson Wyatt¹ report global pension fund assets to amount to US\$23 trillion in 2007 and even with a conservative compound annual growth rate of 6 per cent per annum implies the sector could grow to US\$41 trillion over the next decade.

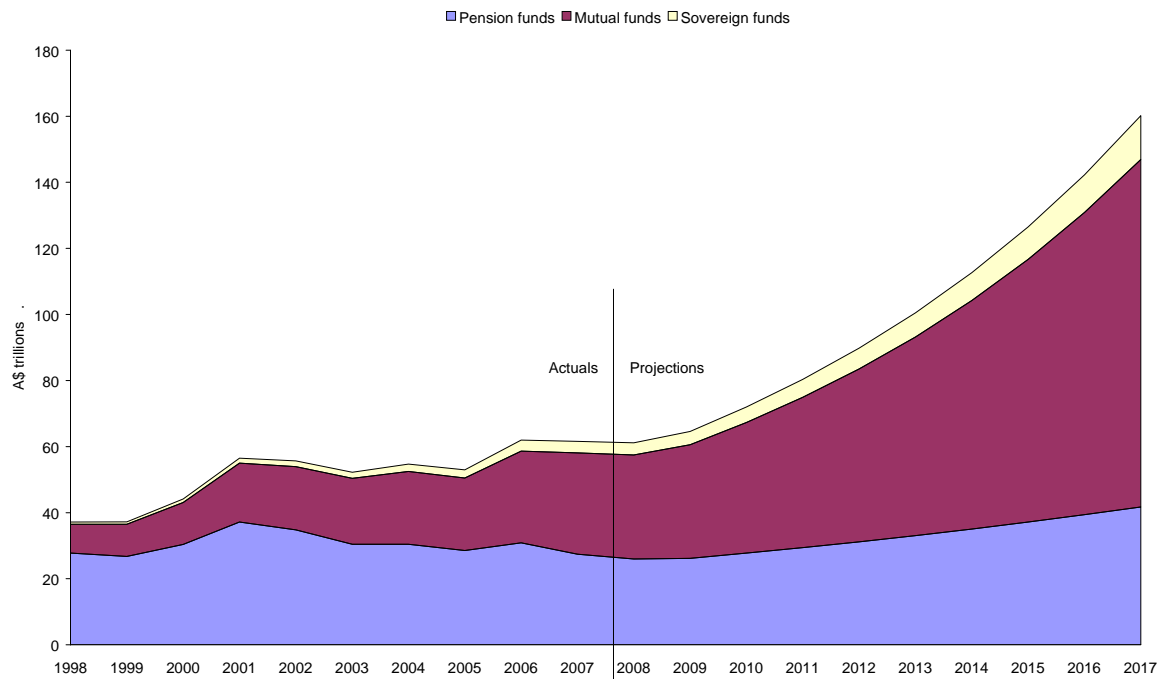
Combine this with worldwide mutual fund assets of US\$26 trillion², according to the Investment Company Institute, which are reasonably likely to increase to US\$105 trillion over the decade even if we assume a conservative 15 per cent annual compound growth (note that recent annual growth rates have been in excess of 20 per cent per annum). Meanwhile sovereign funds which are currently estimated to amount to US\$3 trillion³ are likely to expand to more than US\$13 trillion over the decade according to Morgan Stanley⁴. Figure 6 details these projections converted to Australian dollars.

The potential of these massive pools of global capital mean that Australian investment managers are currently penetrating only a miniscule proportion of US\$52 trillion in combined pension, mutual and sovereign funds. With this FUM having doubled over the past decade in US dollar terms and now conservatively expected to increase to almost triple over the coming decade to US\$156 trillion, even a marginal increase in Australia's market penetration from its current 0.2 per cent level could lead to considerable increases in overseas sourced FUM for Australian investment managers.

Indeed the Australian penetration of this market, being only one-tenth the normal Australian share of global stock market capitalisation, suggests Australia is playing way below its weight in this important global market for investment destinations.

Moreover, reviewing the penetration of Australian investment managers into these segments highlights that

Figure 6: Global mutual, pension and sovereign fund assets



1. For more details see <http://www.watsonwyatt.com/news/press.asp?ID=16948>
2. For more details see http://www.ici.org/stats/mf/ww_12_07.html#TopOfPage
3. For more details see http://en.wikipedia.org/wiki/Sovereign_wealth_fund
4. For more details see http://www.morganstanley.com/views/perspectives/files/soverign_2.pdf

if the 0.5 per cent penetration into sovereign funds could be replicated across pension and mutual funds then the total amount of overseas sourced FUM would immediately increase 2½ times to \$285 billion, noting that the current penetration among global pension funds and mutual funds is only 0.1 per cent. Rainmaker further estimates that if this 0.5 per cent penetration rate could be held constant over the decade then by 2017 Australian investment managers could be sourcing \$740 billion from overseas clients, an amount twice as large as the figure estimated in figure 4.

Countries from where overseas FUM is sourced

The pilot study also sought information regarding from which country the FUM is being sourced. In answering this aspect of the pilot study questionnaire investment managers provided details for a sub-sample comprising \$119 billion in FUM from 13 investment managers.

According to figure 7, the UK provides 22 per cent of overseas sourced FUM, followed by New Zealand with 15 per cent, Japan with 13 per cent, the US 12 per cent, China with 11 per cent, the rest of Asia with 11 per cent, and Europe with 9 per cent.

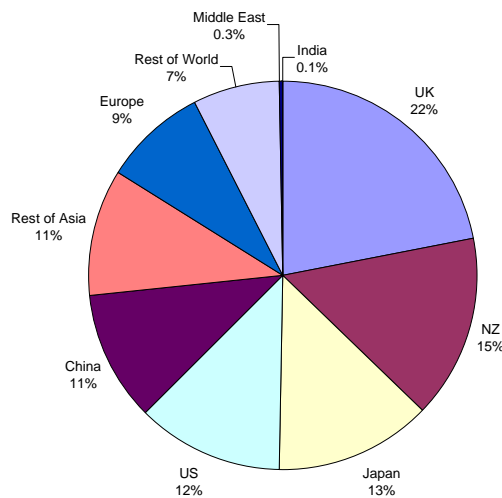
Importantly, the strategic markets of the Middle East and India accounted for only 0.3 and 0.1 per cent respectively while the Rest of the World accounted for 7 per cent.

The key aspect of this analysis is that the top three countries—the UK, New Zealand and Japan—account for 50 per cent of the business. The new market of China has exploded out of the blocks to already represent 11 per cent almost matching the developed US market as a source of FUM. But despite the much talked about potential of India and the Middle East it seems Australian investment managers are yet to develop a viable business model in these bustling marketplaces.

The low penetration to date among Middle Eastern investors is in contrast to the strong penetration Australian investors have secured among sovereign funds from other parts of the world, a factor worth acknowledging given the expanding financial role petrodollar economies are beginning exert on world capital markets due to the massive current account surpluses that are driving their sovereign funds.

Meanwhile the relatively high weighting of New Zealand for overseas sourced FUM despite the relative size of the New Zealand wealth management markets obviously reflects the renewed appetite for institutional investment arising from the New Zealand Super Fund and the KiwiSaver stimulus. Observers should

Figure 7: Country of origin for OS sourced FUM



note however that these New Zealand figures may be inflated somewhat as some of the managers operating in New Zealand have major Australian shareholders or may actually be head-officed in Australia.

Counter-balancing this however is the surprisingly low weighting of US sourced FUM illustrates how difficult it has been for Australian investment managers to penetrate this market. The case is similar for Europe as well.

Countries into which Australian investment managers buy assets

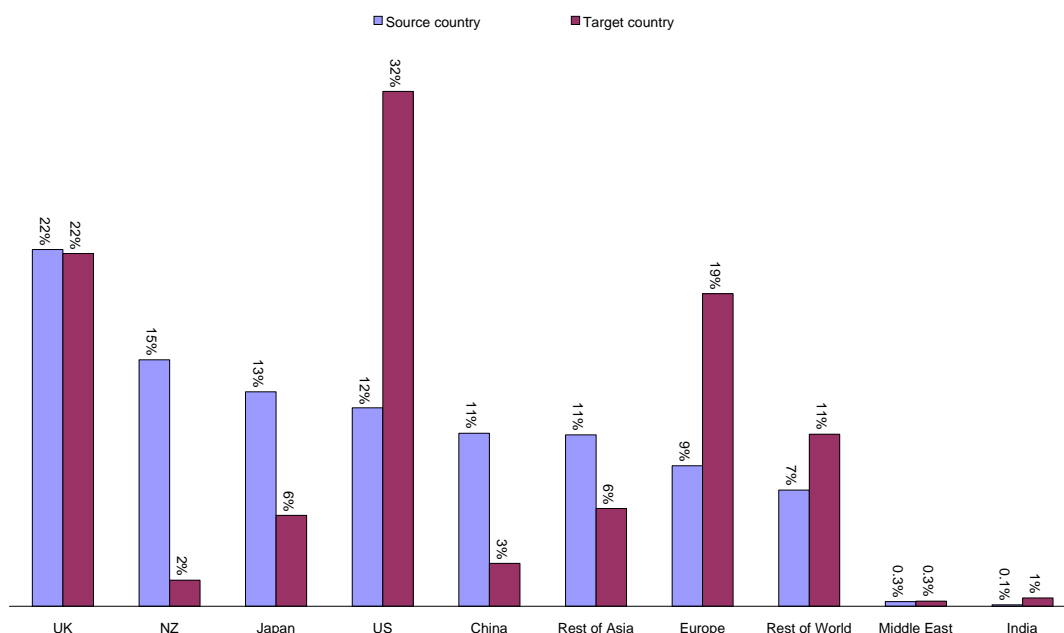
The pilot study sought information from investment managers regarding into which countries they send their own investment flows or where they buy assets. Even though this aspect of the questionnaire was answered relatively weakly with sub-sample responses from 7 investment managers albeit comprising a respectable \$95 billion in FUM, the results are nonetheless broadly consistent with what is already known about world market capitalisations.

For example, the US is the world's largest economy and its various capital markets are still the primary source of world wide fund raising. Reflecting this it is no surprise that 32 per cent of international assets held by Australian investment managers are, according to the survey of overseas sourced FUM, domiciled in the US. A similar situation is found for the UK which attracted 22 per cent and Europe which attracted 19 per cent of assets invested overseas by managers that participated in this survey.

Further analysis revealed Japan attracts 6 per cent of international assets from Australia followed by China with 3 per cent and New Zealand with 2 per cent. Despite the favourable expectations of Indian investments, the emerging super power attracted only 1 per cent of overseas investments from Australia. The Middle East accounted for only 0.3 per cent.

Crucially, the destination metrics stand in contrast to the countries from which Australia sources FUM. For example, Australia invests 32 per cent of outward FUM into the US yet only 12 per cent of inward FUM originates there. Similarly Europe which accounted for 19 per cent of outward FUM makes up only 9 per cent of inward FUM. See figure 8. However while the inward-outward share is well balanced for the UK, for New Zealand, Japan, China and the Rest of Asia it is dramatically in the reverse of that observed for the major developed Western markets. Illustrating this, while Australian investment managers source 15 per cent of their inward FUM from New Zealand only 2 per cent of outward FUM is invested there.

Figure 8: Investment destination imbalances



The net result is a tremendous disparity between countries into which Australian investment managers invest FUM and countries from which they source it. This imbalance also to some extent reflects Australia merchandise and mineral import-export landscape in the sense that Australia's strong economic ties with Asia are yet to be fully translated across the spectrum of other economic and cultural activity.

This however should be seen as a future opportunity especially if Australian investment managers can take advantage of Australia's growing profile in countries that we export products, services and minerals to develop financial services relationships.

Asset allocation of overseas sourced FUM

Investment managers participating in the pilot study able to provide information about asset allocation amounted to \$119 billion in overseas sourced FUM as detailed by 13 managers. The results can be dissected across four main dimensions:

- how much is invested in Australia and how much is “recycled” to stay invested in international assets;
- how much is invested into the major asset classes;
- how much is invested into the detailed asset classes; and
- is the FUM invested differently inside Australia compared to overseas.

As detailed in figure 9, only 13 per cent of overseas sourced FUM is held in Australian assets. While this may seem somewhat surprising it highlights how investment managers increasingly do not just gather overseas sourced assets for feeding into funds operated within Australia as instead the FUM may just make up part of their global businesses. This global investment aspect of Australian investment managers may result in not only portfolio management and investment operations personnel being employed by these firms but also in the employment of administrators, marketing, advisory and strategic executives. In this way the location of the FUM needs to be differentiated against where the personnel are actually employed, a matter that may warrant additional study and further research.

Figure 9: Asset allocation of overseas sourced FUM

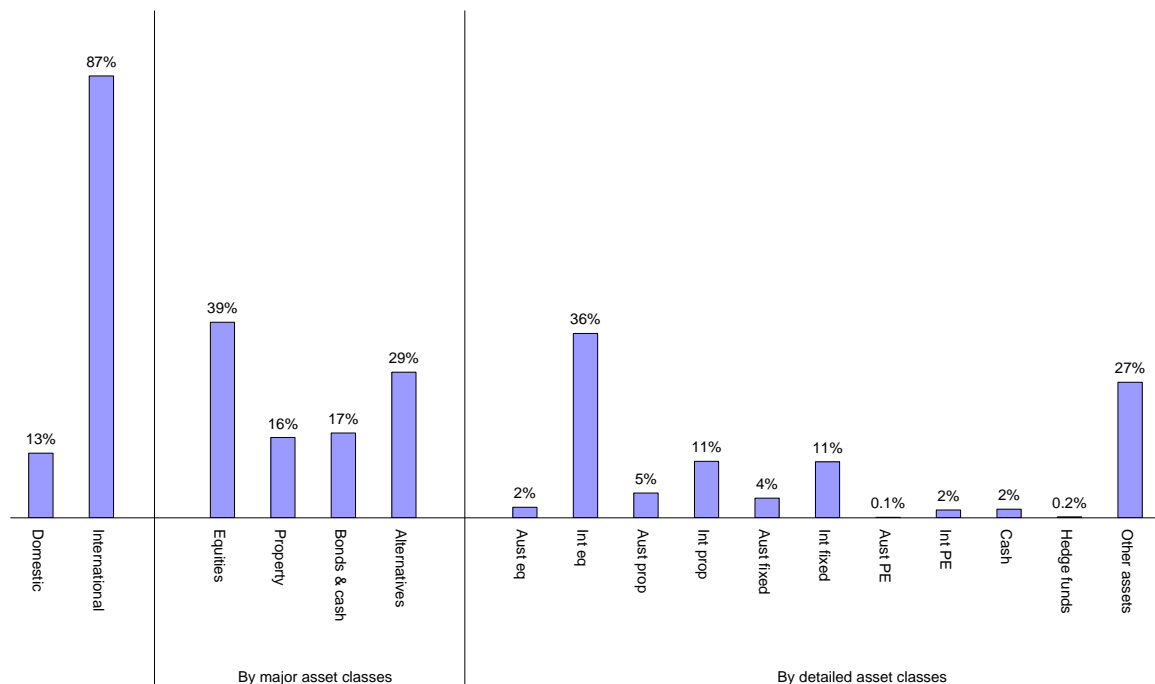
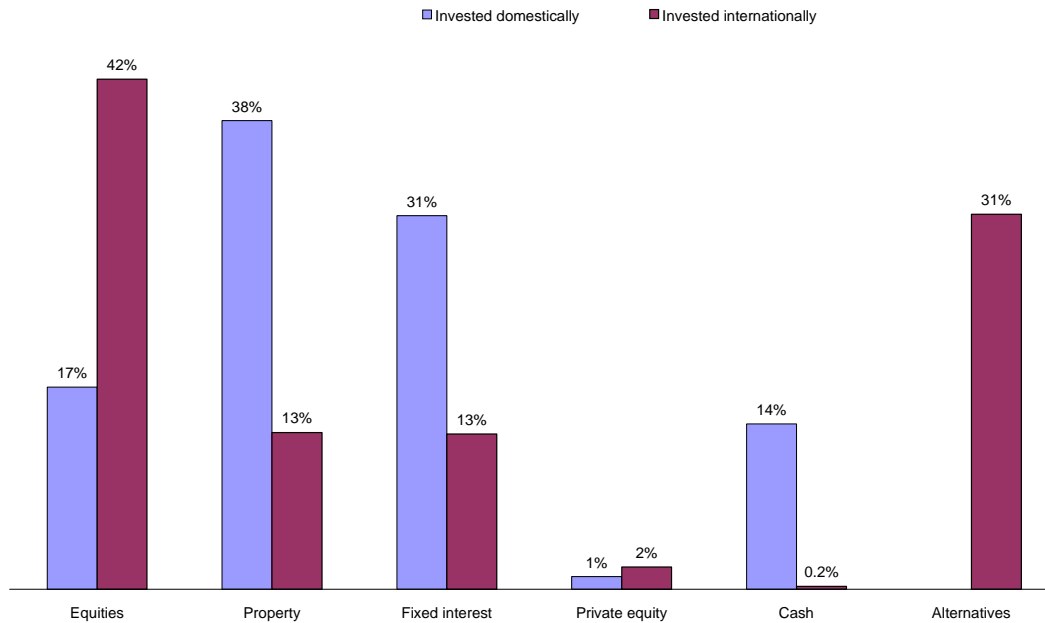


Figure 10: Asset allocation of overseas sourced FUM based on where invested



Another implication for the global competitiveness of Australian investment managers is that Australian withholding taxes and regulatory restrictions may not always impact every aspect of the ability of Australian investment managers to export their services. This is because further examination of overseas sourced FUM revealed that 39 per cent is focused into equities, while 16 per cent is in property and 17 per cent in bonds/cash with alternatives accounting for 29 per cent. Reflecting the very high international weighting of these assets, 36 per cent of all overseas sourced FUM is held in international equities. The equities oriented expertise of Australian managers results in international bonds accounting for only 11 per cent of assets.

Surprisingly, despite the globally impressive performance of Australian equities in recent years compared to other developed world stock markets, only a small 2 per cent of overseas sourced FUM is invested in local equities though this may be artificially low due to the inability of overseas domiciled investors to access local imputation taxation advantages.

While almost a fifth of overseas sourced FUM is held in property, about two-third is then invested back into global property compared to local property. This result may, however, be a positive finding as it suggests that arguments that the lowering of the foreign investment withholding tax will lead to an overheating in the Australian commercial property market may be exaggerated.

Bringing this information together to assess asset allocation of overseas sourced FUM with respect to whether it is invested domestically or internationally reveals some important findings. For example, overseas sourced FUM invested internationally is around 2½-times more likely to be held as equities than overseas sourced FUM channeled into Australian assets. See figure 10.

Conversely FUM sourced overseas is almost three times more likely to be invested into property if invested into Australia compared to if it is invested internationally. The ratio for fixed interest is 2.4-to-one.

Like regular equities, overseas sourced FUM is twice as likely to be held in private equity if it invested internationally compared to if it is invested in Australia. Finally, overseas sourced FUM very rarely ends up in cash holdings when invested internationally. The implication is that overseas sourced FUM invested inside Australia is primarily oriented towards property and bonds, compared to overseas sourced FUM invested internationally which is oriented towards equities and alternatives. ■

APPENDIX A: Measuring FUM — Rainmaker versus the ABS ¹

There are two major surveys that measure FUM in Australia: the Rainmaker survey and the ABS National Accounts survey. These surveys however yield significantly different results. Why?

When measuring funds under management (FUM) in Australia, the two major surveys that are used are Rainmaker and the ABS.

These seemingly similar surveys are however very different, with radically different methodologies, definitions, sample sizes, scope, and even asset class categorisations. Given this, the real irony is how similar, rather than different, the headline results actually are. See figure 1.

Sample size and coverage

Rainmaker surveys quarterly up to 140 fund managers that manage externally sourced FUM on a fee-for-service basis. To be included, a fund manager simply needs to manage FUM on behalf of Australian investors, even if the local manager is only a representative office of a global house. In other words, Rainmaker is trying to measure how much FUM business is available in Australia.

In contrast, Rainmaker understands the ABS survey to include only half this sample or around 60-70 managers each quarter, where the significantly lower sample size reflects their very different definitions for what defines a fund manager.

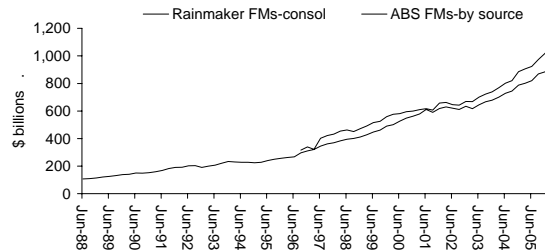
For example, according an unpublished ABS research note prepared by the ABS in response to their review of Rainmaker FUM data (Rainmaker voluntarily shared with the ABS their data in an effort to resolve these survey differences), they advised that they have a very strict view of internally versus externally sourced FUM with the result that they exclude several major managers accepted by the market as leaders in their segment.

Further compounding the sample differences, Rainmaker also understands the ABS to have quite poor coverage of boutiques and hedge fund managers, a group that already accounts for \$140 billion.

Managed funds hold FUM

Another major methodological flaw in the ABS survey is that they claim to only count whole-sale FUM because retail FUM is supposedly picked-up in their public unit trust (ie managed funds) surveys. But not all retail FUM is managed funds and man-

Figure 1: Consol FUM - Rainmaker versus ABS



aged funds are only FUM distribution packets anyway.

Asset class confusion

Finally, the ABS uses asset class categorisations defined by *international statistical standards* rather than by the contemporary market. For example, the ABS category of “equities and units in trust” confuses underlying assets with the investment instrument used to package those asset holdings, while the single combined “overseas assets” figure is also very vague. See table 1.

The end result from these issues of sample size, survey scope, fund manager definitions, asset class categorisations and different treatments of managed funds, mean reconciliation between the Rainmaker and ABS surveys is not possible.

But the real problem is that the ABS survey in its current form distorts official perceptions for how important our industry actually is Australia's economy, with dire policy consequences. ■

Table 1: Asset class perspectives March 2006

According to the ABS	\$B	According to Rainmaker	\$B
Equities and units in trusts	394	Aust eq	343
Loans and placements	22		
Short term securities	87		
Long term securities	81		
Aust fixed	190	Aust fixed	177
Land and buildings	113	Property	138
Cash and deposits	67	Cash	119
Other	29	Other	122
Total local assets	793	Total local assets	898
		Inteq	270
		Int fixed	62
Assets overseas	218	Assets overseas	332
Total assets	1,010	Total	1,230

1. Sourced from Rainmaker Roundup March 2006, page 3.