



Asset & Wealth Management Market Intelligence Digest Australia



Asset & Wealth Management
Market Research Centre
Asia Pacific

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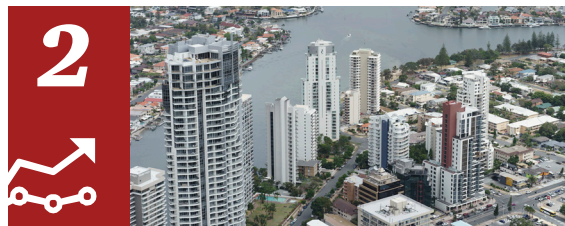
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Key takeaways



Superannuation assets core to the Australian managed funds industry

- Among managed fund institutions, superannuation funds occupied the bulk of assets, standing at \$1.4 trillion, or 78.5% of total market share – the highest proportion since 2008, when it stood at 57.2%.



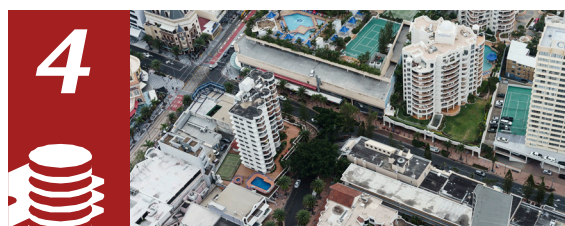
Rise of self-managed super funds

- While working adults were happy to invest in corporate, industry, public sector or retail superannuation funds, the market is seeing the rise of smaller self-managed super funds (SMSFs) in Australia. SMSFs are restricted to a maximum of four members, and give investors full discretion of their superannuation investments.



Cross border fund flows likely to continue to grow

- Cross-border fund flows are currently negligible, but the introduction of the Asia Region Funds Passport, as well as the broadening of new collective investment vehicles may be a game-changer for cross-border funds.



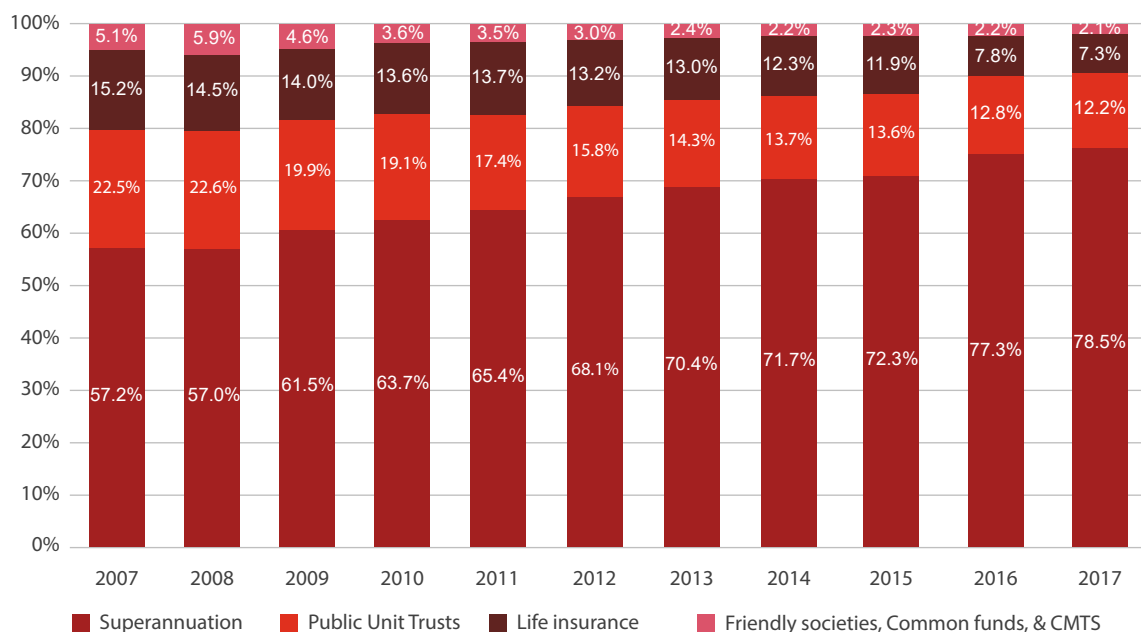
Less concentration in the asset and wealth management space

- While the big four banks - Bank A, Bank B, Bank C and Bank D - used to dominate the entire wealth management chain, the rapid expansion of their business has taken a toll on profit margins.
- In recent years, the big four banks have divested a huge chunk of their non-core business – from asset management to insurance, both locally and outside of Australia.

Market landscape

Managed funds – Breakdown by institutions

Australian consolidated managed fund assets by segment (%), 2007 – 2017



Superannuations make up more than three-quarters of managed funds

- In 2017, superannuations occupied 78.5% of the managed funds industry. The proportion of superannuation has posted an increase of 21.3 percentage points in market share since 2007, and is the only segment that has grown in terms of market share.
- In absolute terms, superannuations have almost doubled in assets, from \$722.8 billion in 2007, to \$1.4 trillion in 2017.
- Public unit trust, which occupied 22.5% of the market in 2007 has seen its market share slip to 12.2% in 2017. Assets of public unit trusts stood at \$222.4 billion in 2017, a 21.8% fall from 2007.

Institutional investors

1 *Superannuation funds*

- In 2016, superannuations paid investment managers \$883.4 million, representing more than 44.0% of their total fee expense.
- The bulk of these expenses came from industry superannuation funds, which incurred \$2.0 billion in fee expenses across investment management, asset consultant, administrator, custodian and other services.

2 *Sovereign wealth fund*

- Funded by budget surpluses and proceeds from the sale and transfer of the government's holding of Telstra shares, the Future Fund is managed in-house and invests in a diverse but balanced portfolio.
- As at 2017, the Future Fund achieved an annual return of 8.7% and stood at \$102.3 billion in assets.

3 *Insurance*

- The life insurance industry has witnessed a spate of consolidations in recent years from Company A selling 80% of its insurance business to Company B, and Company C selling its insurance business to Company D.
- With key players dominating market share, it is likely that more consolidation will ensue.

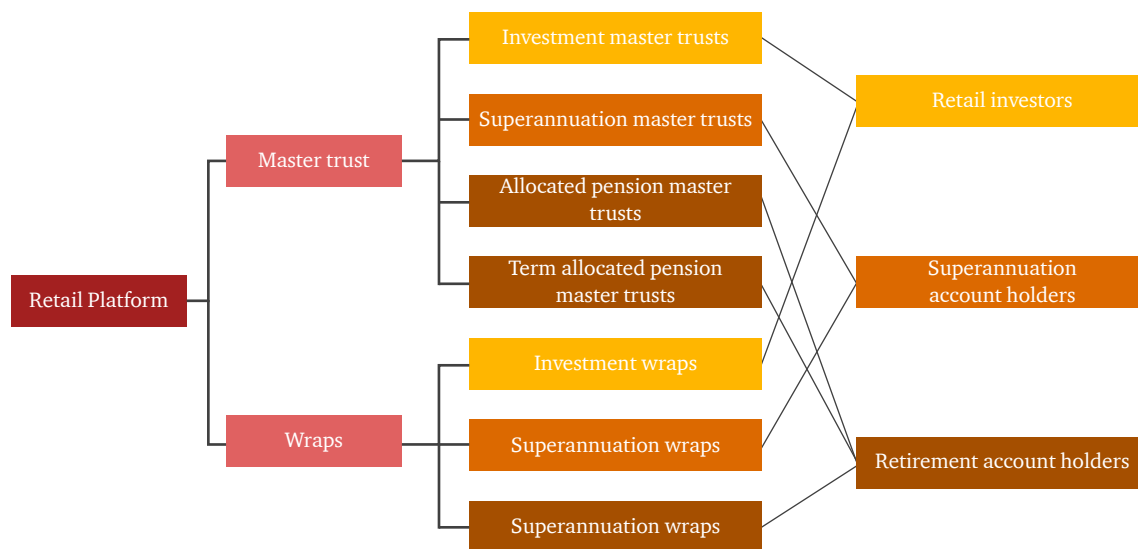


Distribution trends

Platforms are administrative facilities which aggregate investment products, and provide advisors with a consolidated view of their client portfolios. They are frequently used by financial advisors from dealer groups to not only report but also monitor client investments. Through these platforms, investors are able to access a pool of investments including managed funds, term deposits and other listed securities. Products offered through platforms are typically classified as either master trusts or wraps.

Master trusts: A master trust is an investment structure that allows an investor to hold a portfolio of managed funds under the one umbrella, and provides centralized reporting. Investments are held by a trustee, and all fees and some taxes are bundled into the unit price of each investment. In addition, the underlying wholesale funds are usually specific to that master trust which means they are not portable.

Wraps: On the other hand, wraps allow investors to hold not only managed funds but also direct securities in a single portfolio. Investments are held directly by investors, and fees as well as taxes are unbundled. Members' assets are portable, so switching from one wrap to another will not require members to sell underlying assets.



Retail distribution

Banks in Australia by assets (USD bn), 2017

Rank	Banks	Assets (USD bn)	% of total market share
1	Bank A	621.4	22.5%
2	Bank B	579.4	21.0%
3	Bank C	536.6	19.4%
4	Bank D	445.8	16.1%
5	Bank E	63.9	2.3%
6	Bank F	48.2	1.7%
7	Bank G	46.0	1.7%
8	Bank H	42.6	1.5%
9	Bank I	37.2	1.3%
10	Bank J	19.7	0.7%
Others		323.5	11.7%
Total		2764.4	100%

Banks	Custodian	Fund management	Administration/ Marketing	Distribution		
			Platforms	Dealer Groups	Retail Bank	Private Bank
Bank A		✓	✓	✓	✓	✓
Bank B		✓	✓	✓	✓	✓
Bank C	✓	✓	✓	✓	✓	✓
Bank D			✓	✓	✓	✓

Big four dominate distribution

In Australia, banking assets have traditionally been dominated by the top four banks – Bank A, Bank B, Bank C and Bank D.

As of 2017, the top four banks – also commonly known as the ‘big four’ -- held 79.0% of total banking assets. Bank A led with 22.5% of market share, while Bank B trailed closely behind with 21.0% of banking assets.

As a result of a series of mergers and acquisitions in recent years, the big four banks run vertically-integrated businesses, as illustrated in the second table.

All four entities have distribution and dealership arms, which are core to their businesses. At the same time, they also manufacture their own funds, which are often sold through their own affiliates.

Bank C stands out as the only entity which runs businesses across the wealth management spectrum, with custodian, fund management, platform, and distribution capabilities.

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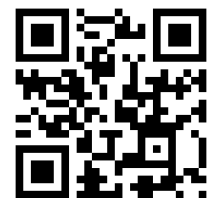
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Justin Ong
Asia Pacific Asset and
Management Leader
PwC Singapore

T: + 65 9731 3758
justin.ong@pwc.com



Conal McMahon
Head of Market Intelligence
and Insights
PwC Singapore

T: + 65 9678 0331
conal.j.mcmahon@pwc.com

