Asset & Wealth Management Market Intelligence Digest
Taiwan

Asset & Wealth Management
Market Research Centre
Asia Pacific

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Key takeaways

Offshore funds still dominates the market

- Despite the regulatory efforts to grow its onshore fund space, Taiwanese investors are still investing bulk of their money in offshore funds.
- In 2017, offshore funds have netted inflows of $5.9 billion, while onshore funds suffered from outflows of $1.1 billion.
- In particular, offshore balanced and fixed income funds are heavily sought after by the investors. For the latter, most of the inflows are going into high yield and emerging bond funds.

Rise of discretionary investment-linked products

- Discretionary investment-linked products (DILPs) have been popular among the retail investors. Between 2015 and 2017, the number of DILPs increased from 160 to 209, and assets grew by 30.7% from $13.1 billion to $17.2 billion.
- Foreign-owned asset managers have been actively exploring the DILP business, as assets are stickier and it helped them to fulfill one of the commitment scorecard criteria – managing NT$3.5 billion worth of discretionary assets – to sell offshore funds in Taiwan.

Opportunities aplenty in institutional space

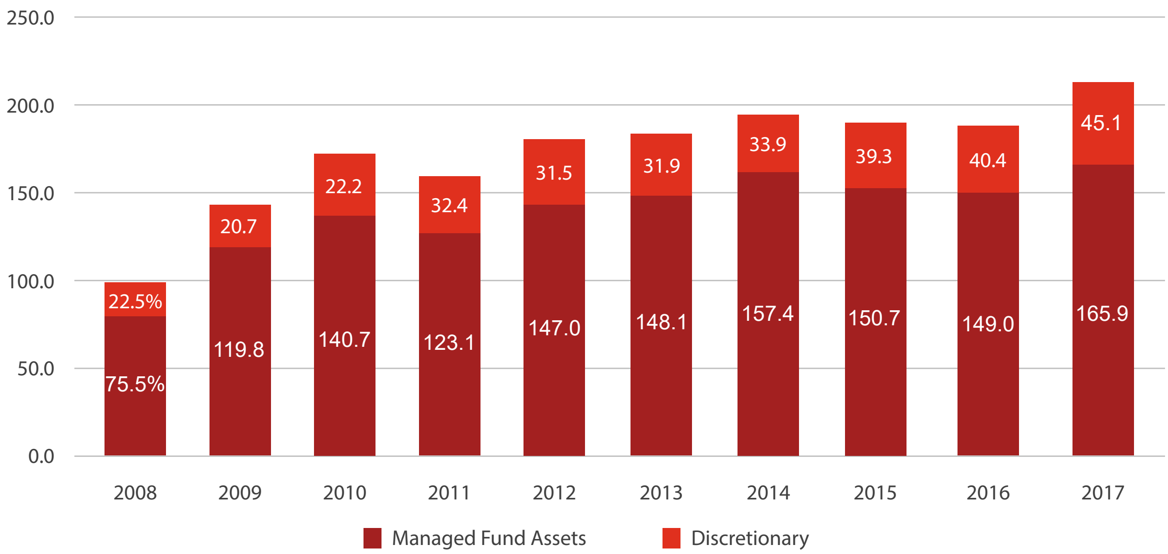
- The institutional space continues to provide opportunities for global asset managers, given that the key pension funds are among the most active mandate issuers in the region.
- In 2017, the pension funds collectively handed out $59.5 billion in mandate money, accounting for 43.1% of their total assets.
- In particular, they are seeking global absolute return fixed income or equity strategies next year.

Private equity funds sees growing potential

- The recent regulatory relaxation to allow Securities Investment Trust Enterprise (SITEs) to participate to participate in the domestic private equity (PE) business is likely to boost assets in this space, which is still very much at its nascent stage.
- Foreign managers that have experience in managing PE funds are likely to benefit as well, where they can partner with local SITEs on domestic projects.
- In October 2017, Cathay SITE received approval for its application to run PE business. The firm aims to launch its first fund in January 2018.

Market landscape

Total Asset Management Market in Taiwan (USD Bn), 2008 – 2017



Asset management market saw growth in the first half of 2017

- In 2017, the Taiwanese asset management market – made up of both discretionary and managed fund assets – stood at $211.0 billion. In the first six months of the year alone, assets grew by 11.4%. This was a huge consolation to asset managers, as the market has seen two straight years of decline in assets of -0.7% and -0.3% in 2015 and 2016 respectively.
- The mandates space has been growing in importance since 2009, and occupied 21.4% of the total asset management market in 2017 compared to just 14.7% in 2009.

Institutional investors

1 *Pension funds*

- In 2017, the Taiwanese pension fund market – taking into consideration the five key institutions that outsource assets to asset managers – stood at $138.1 billion. The five key pension funds have been handing out mandates throughout the years.
- In 2017, the pension funds collectively handed out $59.5 billion in mandate money, accounting for 43.1% of their total assets. Foreign mandates, largely equity and alternative investments, occupied the bulk of the mandates issued, at 75.7% or $45.1 billion.

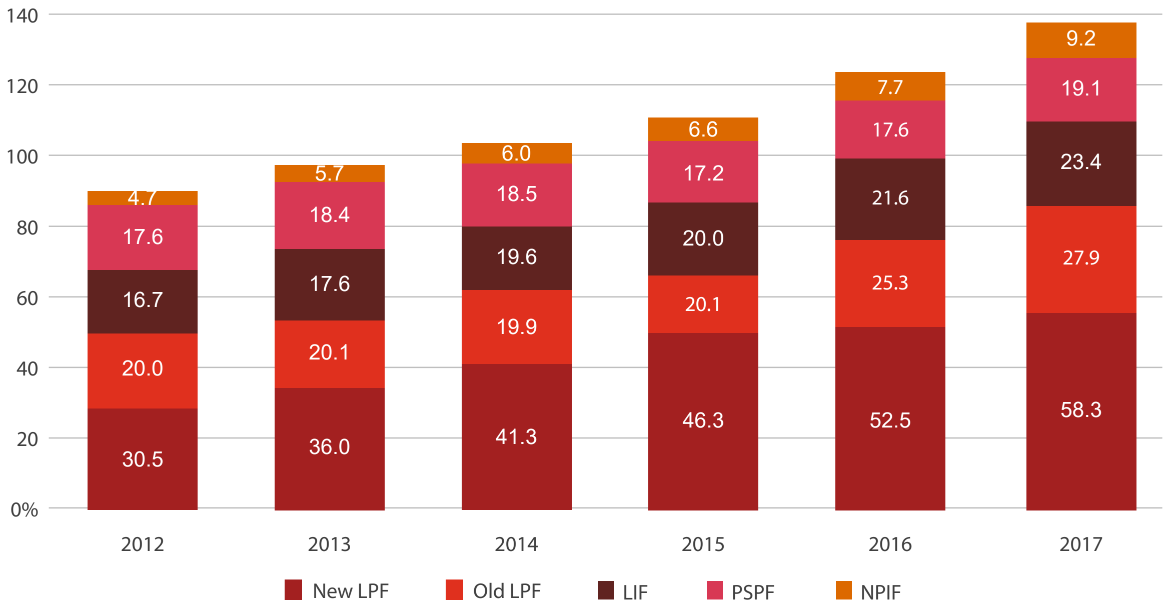
2 *Insurance companies*

- As of end-2016, there were 24 life insurance players with a total of $615.6 billion in assets. To boost returns, life insurers shifted the assets to foreign investments, which rose from 58.0% in 2015 to 63.3% 2016 of the total investment portfolio.
- The allocation is significantly higher than the 45% overseas investment cap set by the regulators, as they allowed life insurers to exclude foreign currency debt issued in Taiwan and foreign business acquisitions from the cap.

Institutional investors

Pension Funds

Total assets by selected pension funds (USD Bn), 2012 – 2017



Growth momentum continued in the first half of 2017

In 2017, the Taiwanese pension fund market – taking into consideration the key institutions that outsource assets to asset managers – stood at $138.1 billion. After three straight years of single-digit growth in assets, the market saw strong asset growth at 13.4% in 2016. The momentum continued in the second half of 2017, where assets grew by 10.6%.

Since 2012, New LPF has occupied the most assets among the five pension fund types. It also registered its highest market share in 2017, at 42.2%. Between 2012 and 2016, New LPF experienced strong growth with a CAGR of 14.6%. Following closely behind is NPIF, with a CAGR of 13.3% within the same period. In absolute terms, its assets had doubled from $4.7 billion in 2012 to $9.2 billion in 2017.

Distribution trends
Subadvisory partnerships

Subadvisory partnerships gaining momentum

Another alternative way for offshore managers to distribute their funds is via subadvisory partnerships, where their funds are packaged and sold by domestic SITEs. This is a low-cost method for offshore managers to build their reputation in the local market, as SITEs will help them with marketing and distributing of their funds. Such partnerships are gaining momentum in the recent years as Taiwan has become much challenging for offshore managers to register their funds in the market. This method is viable for those who have no plans to acquire a SICE or SITE license, but still have the intention to boost their business in Taiwan.

List of Existing Subadvisory Partnerships in Taiwan*, H2 2015 - 2017

Foreign Manager	Domestic Manager	Date	Details
Asset Manager A	Asset Manager H	Jul-15/ Jan-16	Asset Manager A UK-based multi-asset team provided advice and research on ETF selection and trading, for Asset Manager H global fund of exchange-traded funds (ETF). On January 2016, Asset Manager A agreed to provide staff training on overseas investments, and subadvisory services for Asset Manager H locally domiciled global funds.
Asset Manager B	Asset Manager I	Sep-15	Asset Manager B provided a team of six research analyst to support Asset Manager I China High Yield Bond Fund, by providing market information and investment advice.
Asset Manager C	Asset Manager J	Mar-16	Asset Manager C provided a team of 10 analysts to support Asset Manager J Global Multi-Asset Fund of Funds.
Asset Manager D	Asset Manager K	May-16	Asset Manager D, investment solution provider focusing on robotics and automation sectors, provided a team of six researchers to support Asset Manager K Global Robotics and Smart Automation Fund.
Asset Manager E	Asset Manager K	Dec-15/ Jun-16	Asset Manager K launched a locally domiciled fund, RMB High Yield Bond Fund in December 2015, where it was first subadvised by Asset Manager E. In 2016, both companies entered a subadvisory partnership for Asset Manager K China Century Fund, a locally domiciled Greater China equities fund. Asset Manager E provided portfolio management advice, stock trading analysis, and stock market research in China and Hong Kong.
Asset Manager F	Asset Manager L	Aug-16	The two companies will jointly develop exchange-traded funds in each jurisdictions, where one party will offer subadvisory services to the domestic ETF provider.
Asset Manager G	Asset Manager L	Mar-17	Both companies partnered to launch an inverse ETF tracking Hang Seng Index in Hong Kong. Asset Manager L acted as the technical advisor for the ETF.

*The list is not exhaustive

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