Welcome
In this edition of Spotlight, we focus on the growth of the cross-border funds market. One message is clear: there is now a two-way traffic flow. While US and European asset managers continue to target the growth markets of Asia-Pacific, Asian and other emerging market players are increasingly launching their own cross-border funds – and targeting European and global markets. As ever, the key to success is effective distribution in what are often fragmented and complex markets.

Boom time for cross-border funds
Global registrations of true cross-border funds grew by 8% last year, according to the 2011 Global Fund Distribution report by PricewaterhouseCoopers (PwC), taking the total to nearly 63,000. Virtually all the growth was in Europe. Many of the new registrations were from established US and European brand names. But an increasing number were from Asian and other emerging market players. Many are now launching their own UCITS products and targeting European and international investors.

Brian Dillon, a partner at the Dublin law firm, Dillon Eustace, says his firm has seen a steady flow of Asian managers setting up UCITS products: ‘In particular, we have done a lot with Japanese managers.’ Mirae Asset Management of Korea and Singapore’s Fullerton Fund Management have both set up funds in Luxembourg. Hong Kong firms have followed suit – either in Luxembourg or Dublin. ‘Increasingly, mainland Chinese firms are setting up Hong Kong subsidiaries, some of which are looking at the EU marketplace,’ says Mr Dillon.

Late last year, Bosera Asset Management, which has offices in Shenzhen and Hong Kong, launched the first authorized China fund to be promoted in Europe by a Chinese asset manager. In another interesting move, Russia’s biggest asset manager, Troika Dialog Asset Management, is launching its first UCITS product – through Citi.

As the market becomes ever more crowded, finding shelf space on leading platforms is becoming more difficult. PwC reports ‘growing selectivity by third-party distributors’. This is echoed by Adrian Weiss, EMEA Head of Investment Products and Advice, Global Consumer Bank, Citi: ‘Given the number of fund houses already on our platforms, we are not looking to add more but to streamline what we have.’
Western firms still pushing into Asia

Many of the big US and European names are continuing to push into Asia. Distribution there is complicated by the need to register funds separately in those jurisdictions open to offshore funds and establish a local operation elsewhere. The creation of an Asian funds passport to rival UCITS has been discussed repeatedly, but there is scepticism that anything concrete will emerge in the near term.

As in Europe, it is cross-border funds that are setting the pace. The fund markets of Hong Kong, Taiwan and Singapore continue to be dominated by offshore funds, though in Hong Kong – a US$1.2 trillion market – there has been a resurgence in local funds as mainland Chinese managers look to expand and the local RMB market mushrooms.

In Taiwan, five US managers have a combined 65% share of the offshore market. ‘There is a new rule that Taiwanese investors must not constitute more than 70% of the money invested in any offshore fund sold locally,’ says Datong Chang, Managing Director, Taiwan Head of Securities and Fund Services, Global Transaction Services, Citi. ‘Now more firms are setting up local offices to launch domestic funds.’

Much the same is true in Korea, where international asset managers are increasingly setting up shop, though many are using master-feeder structures says Hee-Jin Kim, Managing Director, Korea Head of Securities and Fund Services, Global Transaction Services, Citi. The key distribution channels are via independent financial advisers. ‘There is a preference among investors for firms with a local presence,’ she says.

Getting the distribution role right

Across Asia, distribution channels remain fragmented, there is limited transaction automation and major time zone issues for international asset managers – making it vital to have third-party distributor support in the local market. In the Citi service model, transfer agency and distribution support capabilities are a core part of a fully integrated operation that delivers global and local operational support. Citi also already supports many of the distributors in the emerging markets with local custody, nominee account investor recordkeeping and administration services allowing for a streamlined, end-to-end solution.

Ultimately, investment managers must secure the services of a local expert if they are to tap into the burgeoning opportunities of the new emerging and frontier markets. Having an end-to-end package that ranges from product launch support, fund administration, transfer agency and custody to the 24-hour processing capabilities is good, but couple this with the service and expertise and then you have the ability to get the right results, quicker.

Overall the emerging markets remain exciting markets to be involved in, but the developed markets also have much to offer. Strategic partnerships can help to instill best-of-breed products and practices; they may even work to drive the markets forward. Either way, there is cause for optimism as investment managers continue to win back the hearts and minds of their investors.
Markets attracting new interest

Indonesia
As a top performer in the past year, Indonesia is experiencing a spate of new fund launches. With no clear guidelines for the marketing of offshore products, asset managers are effectively obliged to set up and manufacture locally. Ten asset managers, headed by Schroders, control more than 70% of the market.

Philippines
There is no requirement to register offshore funds which tend to be distributed through local wealth managers. 'A study last year identified a continuous increase in local buying of international funds,' says Sari Mortel, Philippines Head of Securities and Fund Services, Global Transaction Services, Citi. The problem, she says, is that the Philippine Peso is a restricted currency and investment offshore is capped by the central bank. 'There is a general limit of US$30m per institution,' she says, 'though liberalization is on the way.' Most importantly, there is a lot of liquidity in the local market looking for higher returns, she says.

Vietnam
Regulation is being drafted to allow the creation of Vietnam-domiciled open ended funds. A number of existing local and international fund managers will be exploring options once the regulations have been released. "Prudential Group is highly committed to the development of the Vietnamese economy and capital market, being an established market player." Says Henk Ruitenberg, CEO Prudential Fund Management Vietnam, "The introduction of open end mutual funds is an important development and is positive for the retail investor, the economy, the capital market and the fund industry. Prudential is keen to participate in this development and will leverage off its extensive experience in establishing mutual funds in Asia. Even though Prudential is foreign owned, it positions itself as a domestic player. Hence the establishment of a domestic fund industry is seen as vital."