

A Preview on the Asset Management Industry of Singapore* (Second of Two Parts)

By Dr. Junette A. Perez

The asset management industry has grown rapidly. By June of 1999, there were 189 asset management companies, compared to 169 at the end of 1998. Total assets managed by Singapore-based financial institutions increased from S\$151 billion in 1998 to S\$344 billion in 2002. Of the S\$ 183 billion of discretionary assets as of end 2002, 30% came from Singapore and the rest from abroad – mainly Europe and the US.

The IMF attributes the increase to transfers of regional portfolios to Singapore for management and continued expansion of management and advisory activities for the pan-Asian region in light of Singapore's sound legal and tax environment and highly developed infrastructure. Some asset managers have also centralized their regional trading and back office functions in Singapore. Fund managers now have a greater interest in Asian markets due to its economic recovery, and the rebound in Asian capital markets has also raised the market value of portfolios.

The asset management industry expanded steadily against a backdrop of weak global financial markets, after the Asian Financial crisis. Total assets managed by Singapore-based financial institutions grew 12.0% in 2002 to S\$ 343.8 billion (Asset Management, 1999).

There was a 36% increase in the total assets under management in the first half of 1999. As of June 1999, total assets under management was S\$204.1 billion compared with S\$150.6 billion at year-end of 1998. Furthermore, total assets under management exhibited double-digit growth in 2004, reaching s\$572.6 billion, a 23% growth over s\$465.2 billion reported in 2003.

Singapore has retained its role as an international asset management center as 70 % of total assets under management (AUM) has been sourced abroad. 46% of total funds came from Asia-Pacific countries, but asset managers appear to have diversified their sources of funds. New high growth markets have emerged such as the Middle East and South Asia. Funds from these regions grew 76% and 53% per annum respectively in 2004. Europe and US shares have also increased steadily and account for 12% each of total AUM, compared with 7.8% in 2000.

Equities had the largest share in investing funds at 49% of total AUM. Bonds increased in importance from 18.5% in 2000 to 30% in 2004. From negligible levels in 2000, alternative investments, commodities, derivatives and FX products accounted for 21% of total AUM. Cash, deposits and money market products saw their share decline over the same period.

* *This article is culled from an initial draft on Singapore Country Analysis for the study "Fostering Asset Management Industry toward Capital Market Development".*

The average AUM managed by asset management entities was S\$2.3 billion in 2004, up from S\$ 2 billion in 2003. Ten asset management entities manage more than S\$10 billion in assets, accounting for 31% of total AUM and 56% of discretionary AUM.

Asset managers with less than S\$1 billion in AUM numbered 132 in 2004, and accounted for 7% of total AUM. Most of these managers are indigenous companies which numbered 111, up from 96 in 2003. These companies accounted for 25 % and 38% of discretionary AUM and total employment investment of professionals, respectively. The total number of investment professionals in the asset management industry increased by 15%, to 1,135 in 2004 from 86 in 2003. (Singapore Asset Management Industry Survey, 2004).

By end of 2003, Singapore's total assets under management tripled from S\$150.6billion (S\$1 = 65yen) in year? to S\$465.2billion. Of this total, discretionary accounts (where investors entrust entire account and management of funds to fund managers) accounted for S\$254.6billion. Non discretionary accounts (investors specify a particular management policy) amount to S\$210.6billion. Many of the discretionary accounts are seen as private banking assets catering to the wealthy, 70% of whom are from Europe and the United States. Some reasons for this growth:

- i) In contrast to Hongkong, Singapore's monetary authorities provide strict monitoring, within a reliable legal framework.
- ii) Competent staff, in English and other languages, work to gather regional information needed for excellent customer service.
- iii) External factors include redirection of funds from Hongkong to Singapore after Hongkong's return to China.
- iv) A similar redirection from EU happened in response to Switzerland's decision to impose a 15% withholding tax on deposits from EU nationals and to increase tax in stages to 35% by 2011.

The growth of the Chinese and the Indian economies has added support to the industry specifically in private banking. These are in the form of:

- i) Broadening and deepening of the talent pool demanded of asset management companies. MAS established a wealth management institute, the first asset management graduate school (one year master's course) in June 2004.
- ii) Expanding of the asset management industry as the government:
 - 1.) Entrusted government fund management to private sectors (GIC, MAS).
 - 2) Granted permanent residence to attract immigrants from regions suffering from political instability.

3) Accepted Middle Eastern funds that had estranged themselves from dollars following the 9/11 terrorists attacks.

- iii) Review of the preferential tax measures and business laws. The 2005 budget contains preferential taxation measures for boutique fund managers and the possibility of preferential tax treatment for philanthropy.

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These article are contributed by the CBE Faculty in the column of Business Focus of Manila Bulletin published January 31, 2006..