

2016 AUSTRALIAN INVESTMENT MANAGERS CROSS-BORDER FLOWS REPORT



PERPETUAL CORPORATE TRUST

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The Asia Pacific has retained its position as the leading contributor of funds flowing into Australian Managed Investment Trusts, but with the region's middle class growing and their appetite for financial services expected to boom, there is significant scope for Australia to capitalise on further opportunities in the region.

These are some of the observations in the 2016 Australian Investment Managers Cross-Border Flows Report, commissioned by Perpetual and the Financial Services Council. The annual Report, now its fifth edition, is undertaken to shed light on the implications of policy changes for the export of managed funds products to offshore investors.

KEY FINDINGS AT A GLANCE

- Asia Pacific is the dominant source of cross-border fund inflows representing 62%.
- Overseas money flowing into Australian Managed Investment Trusts has grown at a compound rate of 17.8% per annum over the six year study

period.

- Other fund managers were the biggest source of investment (48%) followed by pension funds (16%) and sovereign wealth and endowment funds (9%).
- The most popular asset class was Australian property with 31.1% (\$15.59 billion) of funds sampled, followed by Australian fixed interest and cash at 21.5% (\$10.75 billion).



FUNDS MANAGED BY AUSTRALIAN MANAGERS CONTINUE TO GROW

From \$20.3 billion at 1 January 2010 to \$46.0 billion at 31 December 2015
17.8% pa compounded



LARGEST FROM OUTSIDE

ASIA PACIFIC:
8% **EUROPE INC UK** (\$3.9 BILLION)
6% **USA** (\$2.8 BILLION)
6% **MIDDLE EAST** (\$2.6 BILLION)
18% **REST OF THE WORLD**
(\$8.4 BILLION)

LARGEST FROM ASIA PACIFIC:

40% **JAPAN** (\$11.4 BILLION)
11% **NEW ZEALAND** (\$5.2 BILLION)
5% **CHINA** (\$2.5 BILLION)
5% **SOUTH KOREA** (\$2.2 BILLION)

DOMINANT REGION:

ASIA PACIFIC - 62%
(\$28.4 BILLION)

DOMINANT COUNTRY:

JAPAN - 25%
(\$11.4 BILLION)

MAIN ASSET CLASSES



31%
AUSTRALIAN
PROPERTY



22%
AUSTRALIAN
FIXED INTEREST/
CASH EQUAL



18%
OVERSEAS
SHARES



10% each
OVERSEAS
PROPERTY AND
AUSTRALIAN
SHARES EQUAL

OVERSEAS ASSET CLASSES



38%
OF ALL INVESTMENT
INFLOWS SAMPLED
(\$18.8 BILLION)

KEY INVESTMENT SOURCES

48%
OTHER FUND
MANAGERS

16%
PENSION
FUNDS

9%
SOVEREIGN WEALTH
& ENDOWMENT FUNDS

9%
OWN OVERSEAS
GROUP

ASIA PACIFIC DOMINATES OVERSEAS FUNDING

Over the last five years, there has been significant growth in the funds sourced from offshore investors and managed by Australian fund managers. The amount has more than doubled, rising from \$20.3 billion at 1 January 2010 to \$46.0 billion at 31 December 2015.

The vast majority of this funding comes from the Asia Pacific, representing 62% at a value of \$28.4 billion. Despite the extent of current investment, the Report notes that the demand for financial products and services is expected to escalate as the region's middle class swells. For domestic fund managers to capitalise on this opportunity, further policy changes will be required to increase funding from overseas investors.

BUILDING ON A SUCCESSFUL FOUNDATION

The extent of current fund flows from Asia Pacific is testament to the recent free trade agreements Australia has entered into with Korea, Japan and China. Since last year's Report, progress has also been made on the Asia Region Funds Passport (Passport), with a Memorandum of Understanding being signed by Australia, Japan, Korea, Thailand and New Zealand. The Passport will allow Australian investment managers to sell products to retail customers located in participating jurisdictions,

and vice-versa.

While recognising the progress being made, the Report notes more needs to be done to improve Australia's attractiveness as a regional finance centre, such as a review of Australia's complex and high rate of withholding tax on Australian assets.

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In the report, Perpetual and the Financial Services Council find that the Asia Pacific is the leading contributor of funds flowing into Australian Managed Investment Trusts. There is significant scope for Australia to capitalise on further opportunities in the region.

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