

Opalesque Exclusive: UCITS funds have great potential in Asian hedge fund markets

From Sagar Chakraverty, Opalesque Asia:

Today, Asia is one of the most important markets for the distribution of cross-border European funds under the structure called Undertakings for Collective Investment in Transferable Securities (UCITS).

According to a [report](#) by Price Waterhouse Coopers, a global accountancy and advisory firm, the key factors that helped UCITS to succeed globally include stability of regulatory regime, the high level of consumer protection, the flexibility and adaptability of the funds, and their perceived neutrality.

A [study](#) done by the European Fund and Asset Management Association (EFAMA) in early 2009 showed that net sales of UCITS funds in Asia even after the 2008 crisis, accounted for approximately 17% of the AUM value of all UCITS funds' sales. The EFAMA also said that a large majority of all products sold in Hong Kong are UCITS-compliant.

"Asia is a fantastic market for cross-border funds. Not only is it important in terms of business but also in terms of growth potential, since it has shown remarkable stability in the face of the financial crisis," said Elisabeth Meyers, director, at Euroclear, a Brussels-based investment fund product management firm.

European products popular in Asia on back of rising institutional investments

Post-global crisis, Asian investors have become more risk averse and may be more sceptic about American products and supervision. They have shown a greater acceptance towards UCITS funds and European supervisors after being convinced by the European authorities and regulators about the quality of the risk management facets built into the UCITS legislation. The EFAMA believes that the Hong Kong authorities were most concerned about risk management, structure for supervision, and how investor protection works, according to a [report](#) by The Banker.

"The potential in Asia is absolutely huge...all Chinese people who get wealthy go on to open an account in Hong Kong. This gives them a window to any investment in the world. The market has a lot of growth potential. UCITS is the easiest way to invest," said Guillaume Wehry, regional marketing head at Société Générale Asset Management.

James Liu, Deputy Chairman and Deputy CIO of [APS Asset Management](#), a Singapore-based fund management firm, told Opalesque in an interview yesterday: "UCITS-compliant funds are getting more popular in this region given its transparencies, liquidity and the more stringent regulatory requirements. However, the main reason behind this move is probably the increasing importance of institutional investment business in Asia and a rapidly growing AUM in this region due to the strong economic growth for Asian countries.

“According to Cerulli Associates forecasts, Asia's fund sector will recover to its 2007 peak level of \$1.06tn AUM this year, well ahead of markets elsewhere.”

He believes the demand for UCITS funds will continue to grow given the increasing AUM in Asian hedge fund markets and a more balanced institutional and retail exposure in the market.

UCITS-compliant ETFs

In March-10, Deutsche Bank, an international bank head-quartered in Frankfurt, [launched](#) Hong Kong's first UCITS III-compliant Exchange Traded Funds (ETFs) to track the performance of ten CSI300 sector indices. The CSI 300 Index is a freefloat-weighted index that consists of 300 A-share stocks listed on the Shanghai or Shenzhen stock exchanges.

“The new ETFs provide Asian investors with a transparent and liquid investment option and allow them cost-effective ease of access to the performance of the mainland Chinese equity market,” said Marco Montanari, Asia head of Deutsche Bank's ETF platform.

Regulatory safeguards

UCITS funds have several regulatory safeguards put in place to make it safe and transparent. First, to avoid mis-selling, the investment manager has to provide a simplified prospectus to investors, which lays out the essential details of the fund before the sale of the product. Second, the price of each UCITS product is published daily and regular reports are sent to investors. Third, for security purposes, specialist custodians are typically used to hold the funds.

The Banker said that some regulators in Asia such as Taipei's, being impressed by the UCITS structure, are preparing similar structures for Asian investors. Even the US authorities are reported to be working on such a structure.

Challenges to cross-border funds

There are several challenges with globalized UCITS' distribution, as it needs effective implementation such as global risk management, compliance, and product development processes. Although the trend is towards maximizing the distribution of UCITS products for scalability and cost control, the downside risk is that these cross-border funds tend to get subjected to the non-harmonized tax and regulatory framework of each host country of distribution.

Unlike Europe, which is moving towards a single financial services arena, the Asian market is highly fractured with each country having its own specific rules and regulations. Except markets such as Taiwan, Singapore and Hong Kong, which are quite open to foreign investment funds, other big markets - India and China - have not been successful for cross-border funds distribution for a variety of regulatory, tax and cultural reasons.

Dean Chisholm, head of operations, Asia-Pacific at Invesco, an investment management firm, [explained](#): “Apart from regulatory barriers in both India and China, the domestic stock market is performing much better than international markets. Domestic investors therefore are favoring domestic equity funds.”

See our most recent articles on UCITS:

Opalesque Exclusive: Survey: Significant demand for UCITS Hedge Funds and UCITS FoFs despite performance gap to offshore funds [Source](#)

Opalesque Exclusive: UCITS III funds take hold as 97 new vehicles launched in 2009 and the sector grew to \$52bn in assets – EurekaHedge [Source](#)

Opalesque Exclusive: UCITS and hedge funds - Convergence between alternative and traditional investment space is inevitable (2) [Source](#)