

Chairman Message

The year of 2005 was quite a challenge to the securities investment trust and consulting industry taking as a whole. Taiwan stock market fell and troubled by structured products that led to the fund scale shrunk. Fortunately, Taiwan stock market had a great come back at the end of 2005 and domestic investment trust funds had performed outstandingly. Taking the performance of domestic equity funds for example, 161 out of 171 stocks defeated the market ending with a great performance in 2005. Moreover, the lift of regulations, and the introduction and growth of new businesses including the enforcement of regulations for offshore funds, rapid growth of privately placed funds, and defined pension market business opportunity has helped brighten up the industry development in 2006.

Privately placed funds and bond funds

By the end of 2005, twenty-six SITEs that launched Privately Placed Funds (PPFs) representing close to 60% of the industry AUM for an amount of NT\$43.7 billion, and it had become a main driver for the growth of industry. According to the amended Minimum Income Tax Act, the minimum tax base shall apply to the PPFs. However, the tailor-made PPFs that are designed with the feature of after-the-fact filing have the advantage of seizing market opportunities; therefore, the future looks promising for the PPF market.

Furthermore, through the joint efforts by the regulator, the Association, and securities investment trust, the structured products holdings of SITEs for over one and half years had finally been resolved by the end of 2005. For SITEs, a heavy price was paid for the silent reform; however, the reclassification of bond funds was completed preliminarily that shall benefit the market in the future. For the industry, short-term loss shall be justified with the long-term gain. The steady inflow of fund in the early 2006 has evidenced the effort of the industry taking as a whole.

Offshore funds landscape

The regulation for offshore funds (Regulation) was enforced on August 2, 2005. In addition to incorporate the distribution of offshore funds, the subscriptions of offshore funds and private placement are included as well. Domestic investments of offshore funds are protected by law through the Master Agency (MA) regime; moreover, according to the Regulation, SITEs and SICEs may act as the MA and distributors for offshore funds; therefore, the SITEs and SICEs may have a wider array of business.

The Association was entrusted by the competent authority in mid-2005 to conduct interviews and inspections of the SICE members; therefore, the Association may understand the operation of SICEs better and the SICEs may also understand the respective laws and regulations better through the explanation and assistance from the Association. The Association recognized

the impact of illegal SICEs on members through its interview and inspection.

Therefore, the Association will suggest the regulator to prevent certain SICEs from conducting unauthorized business and will remind investors for the second time to watch out for the violating SICEs in the market. Moreover, once the Regulation is enforced, the Association will propose to members for further business expansion and transformation and with relevant educational courses designed to help members understand the operation and business opportunity of offshore fund in order to upgrade member's competitiveness.

Pension market outlook

Since the introduction of new labor pension plan on July 1, 2005, pension fund pooling has been accumulated at the monthly rate of NT\$8 billion. The massive business opportunity has caught the attention from the public; no doubt, pension market has become one of the most important markets for SITEs and SICEs. The Association and security industry are well prepared to help members compete for pension business through the introduction of discretionary investment business performance evaluation; also, introduce the system and development experience of the United States, Singapore, and Hong Kong to promote domestic pension fund management. Industry and laborers may determine funds and investment objectives under the supervision of government and through the products and planned assets offered by SITEs and SICEs. The efforts shall be expanded for industry development with the precondition of improving welfares. We expect members to position themselves as product designers and providers, and launch innovative products and business services to reinforce product design and operating competence in order to seize pension market opportunities and upgrade the industry to the scope of assets management at the same time.

Due to the introduction of new financial products, the reformation of distribution network, and the business opportunity of new pension market in 2006, investment trust and consulting industry will face a cross road full of challenge. The challenge of the industry is how to stand out from the crowd. The Association expects itself to operate more diversified and effective than ever. In addition to help promote businesses, assist members exercise self-discipline spirit, and upgrade industrial image taking as a whole, the Association will educate investors with correct financial management notions and help members promote business.