



Market Analysis

SITE Industry

In the year of 2008, the global financial service market was hit by the never-seen-before financial storm for the past 100 years, an early start from the global financial tsunami triggered by the sub-prime mortgage crisis, then confidence crisis and liquidity risks from the credit crunch, and finally to super financial houses requesting for government bail outs. The global capital market is plagued with the economic meltdown and the worst recession.

Up to December 2008, the number of domestic SITEs remained at 39. Three of them were acquired by foreign asset management companies. We expect the equity partnership and amalgamation trend will continue.

The number of onshore public offering funds reached 497 with a total fund asset of NT\$1.57 trillion and beneficiary number of 1,792,217. There were a total of 56 new onshore funds, and more than half of them were overseas equity and balanced funds with investment targets focusing on recently most sought-after trends, including environmental protection, fundamental infrastructure, inflation-linkage, and emerging market demographic growth as well as China's concept or Greater China sector funds that mainly invest in H shares and red-chip stocks. In addition, the number of onshore equity, balanced, and ETFs has reached more than 16 due to the expectation that Taiwan stocks would have a bully market after the change of ruling party. One thing, worthy of mentioning is that after the ease

of regulations, domestic SITEs launched the first bond fund investing in high yield bonds. But for the second half of 2008, the global financial crisis hit Taiwan's market, especially the SITE industry that the fund size was substantially contracted due to the declining investment assets and redemption pressures from the investors. Many SITEs decided to merge their funds with other funds or go for liquidation due to the consideration of investment efficiency and costs. Despite that many new funds launched in 2008, the total fund number compared to that of 2007 has been reduced.

The privately placed funds were also hit by the storm. Up to December 2008, the number of privately placed funds has been reduced to 152 with the size of NT\$26.7 billion. The discretionary investment business was no exception despite that the government has increased the amount for the mandates, and the annual assets have been reduced by more than NT\$25 billion to a total around NT\$730.7 billion.

The SITCA and its SITE members will continue to promote the regular savings plan (RSP) program in the hope that the domestic investors may take advantage of RSP to diversify the investment risks and accumulate their wealth, particularly in the time of a bearish market. However, due to the financial storm, a lot of investors selected to drop and cease their RSP. The number of RSP participants has been reduced from 608,000 at the end of 2007 to 478,000 at the end of 2008. The monthly RSP amounts has also been reduced from NT\$4.02 billion to NT\$2.59 billion.

With respect to the regulatory environment, the FSC initiatives have enabled the SITE to have more powers and flexibilities in investment management and operations, namely, no limit for H shares and red-chip stocks, and the limits of direct investments in China securities has been relaxed from the previous 0.4% to a 10% of the fund' net asset value. SITE funds are allowed to engage in derivative trading from the previous limit of 15% to 40%. The scope of permissible derivative products has also been expanded to include overseas futures or options with underlying targets of domestic securities and equity indices. The old requirement of 5% cash reserves has also been lifted. The FSC also allows for bank loans applied for the purpose of meeting investor redemption requests. With proper internal control in place, SITE is allowed to invest all of its fund assets in futures to upgrade the fund performance. In addition, a SITE may also apply for a concurrent trust license, which signifies that the SITE is permitted to engage in a trust-type discretionary investment business.

According to foreign research reports, the pension fund market of each country has been the major focus for asset managers. Our new labor pension scheme has been in place for three years, and Taiwan is now at the system revamping stage. There is potential room to grow for the market. The SITCA has proactively communicated with all relevant industry players, continuously promoting the openness of "labor choice" scheme, and maintained its posi-

tion for fund outsourcing. The SITCA has held and will continue to hold forums and seminars throughout the island in the hope that Taiwan investors can be better educated for best managing and protecting their own retired life.

Our government has opened up the establishment of futures trust enterprises and futures trust funds. Currently, several SITEs have successfully applied for and granted the concurrent licenses of future trust enterprises. They are also ready for launching futures trust funds that mainly invest in derivative products so the fund product line for the industry will be more diversified and even more flexible in fund operations to satisfy investors' demands.

Facing this global economic recession in 2008, we are not allowed to be overly optimistic. The SITE industry shall do its best to upgrade the product research and development and its management skills. Also, it shall find out its own niche and create market segmentation in order to withstand fierce competition.



SICE Industry

The Securities Investment Trust and Consulting Act has been in effect for over 4 years. The SICE industry has continued to mature in terms of enhancing its professional investment consulting services and strengthening investor protection. Although the global financial market faced severe challenges with critical impact on each industry and business in 2008, our regulator timely responded by launching various initiatives in either amending or easing the regulations for helping out the industry members so the SICE industry has suffered much lower damage in comparison to those counterparts in other countries and demonstrated that they may stand up to the test.

At the end of 2008, the SITCA has a total of 126 SICEs members. Among them, 21 are master agents for offshore funds; 27 are discretionary investment operators. We hereby summarize the industry's development as follows:

Established a professional image for SICE and crackdown on unregistered SICEs in order to protect investors' rights

The SICE industry has always aimed to and will continuously provide proactive consulting services while complying with business activity requirements and developing its self-regulatory functions. The SITCA has continuously promoted and educated the SICE industry for self-regulation compliance through handbooks, seminars, e-newsletters in the hope that the overall SICE industry may pursue an upgrade on the quality of its personnel and continuously maintain a stable growth for its consulting business that is in line with the strict requirements of promoting busi-

ness activities while also enhancing the protection of the rights and interests of the investors. In addition, the SITCA also aggressively sought regulatory amendments to improve the fairness, just, and openness of the qualification examinations for securities investment analysts.

The current activities from illegal SICEs pose a serious threat not only to the investor rights and interests, but also to those members which follow and observe the laws and regulations. The SITCA will maintain its vigilant watch on illegal SICEs and facilitate the prosecution of their illegal activities in order to protect both the professional SICEs and the investors.

Offshore business impacted by the global financial crisis

Without exception, the offshore funds business which enjoyed its prosperity and boom in the past was adversely affected by the global financial crisis. Total offshore fund investments have plummeted from NT\$2 trillion at the year end of 2007 to NT\$1 trillion at the same of 2008. Despite the difficult environment, master agents of offshore funds continue to introduce offshore funds with an emphasis on product differentiation so that investors enjoy a wider variety of product choices.

Discretionary investment business

As of the year end of 2008, the total investment amount under SICE's discretionary investment (includes concurrent business) is at NT\$54 billion. The relaxation of investment limits in Greater China (PRC, Hong Kong, Macao) should have a positive impact on the discretionary investment business.