

## Message from the Chairman



Taking a retroactive look for the past 12 months, the global financial market was hit by the never-seen-before financial storm for the past 100 years. Investor confidence collapsed which caused the onshore funds' size to substantially drop from a record high of NT\$2.15 trillion in 2007 to NT\$1.57 trillion by the end of 2008 and offshore funds' size from NT\$2 trillion in 2007 to NT\$1 trillion by December 2008. This unprecedented challenge can be viewed as a major crisis, but it can also be seen as an opportunity as much as the same way that the structured bond crisis has been developed.

How can we turn the financial crisis into an opportunity? It is my humble belief that the SITE industry's competitiveness stems from products and talents. Strong products and superior talents, along with robust regulations are the keys to attracting foreign capitals, which can help shape Taiwan into the Asset Management Center for the Greater China area, and ultimate the Asia Pacific region.

### Product innovation and talent development

Traditionally, domestic SITEs have adopted the so-called "buy and hold" approach, which is susceptible to market volatility. The 2008 financial crisis has led industry players to think about how to create stable returns and develop product differentiation. For example, when the equity market became bearish last year, investors were attracted to futures products. In response to investors' interests, several SITEs are in the process of introducing managed futures funds. This is the type of trend that we would like to see. We also hope that our members can strengthen their product innovation and attract talents who can thrive with different products, markets and countries. By doing so, the SITEs can truly develop their competitive advantages and diversify their product line through new mechanisms and innovation.

## Develop private placement funds and discretionary investment business

Private placements funds and discretionary investment business can be both custom-tailored for their clients and be the market leaders. They both play extremely important roles to the industry's future development and goal toward product diversification. However, as of the end of December, 2008, private placement funds account for only NT\$26.7 billion of total asset under management and NT\$748.9 billion for discretionary assets. The statistics show that the AUM for both businesses have stagnated since 2007. For discretionary investment business, the sources of assets come from the four major government funds. Compared to their European peers, where discretionary investments account for as much as 50% of total AUM, the absence of institutional investors, e.g. banks and insurance is the root cause. Further, management fees for the four government funds tend to be low and the funds tend to seek short-term performance. These are issues that SITCA aim to discuss with the authority-in-charge in the future. As for private-placement funds, the SITCA would like to seek the following amendments: provide additional tax incentives, increase the maximum number of investors, and repeal investment limits in PRC for domestic private-placement funds, etc.

## Improve internationalization and develop the Greater China Asset Management Center

Since the cross-straight relationship between Taiwan and China has been improving, the SITE and SICE industries have both showed a high level of interest in entering the PRC market. With the distinct possibility that an MOU for cooperation between financial industries from the two sides in the third "Chiang/Chen Meeting" (Chiang Ping-kuen and Chen Yunlin), the SITCA is planning an visit to either Shanghai or Guanzhou in 2009 to further investigate the China asset management market and seek opportunities for partnership. It is our goal that Taiwan can leverage its advantages in geography, language, and culture, as well as industry experience and talent level to shape Taiwan as Greater China's asset management center.

## Continuing our efforts to win business from the Labor Retirement Pension Funds

For over 2 years, the SITCA has recommended that the Labor Retirement Pension Fund should implement the "labor-choice product platform", somewhat similar to the 401(k) mechanism in the U.S., the mandatory provident fund in HK, and Singapore Central Provident Fund, so that



workers can make their own investment decisions. Such an amendment would not only benefit workers, but also improve the domestic capital market. According to industry statistics, the new Labor Pension Fund has earned less than its guaranteed dividend in each of the four years the system has been in existence. As of the end of November, 2008, the fund has accumulated a total loss of 6.8%. The Council of Labor Affairs (CLA) has finally relented in the face of the public's growing desire to make their own investment decisions. The CLA is now studying the feasibility of "Labor Retirement Fund Labor-Choice Product Platform" and would initially allow for three types of investments: aggressive, moderate, and conservative. The SITCA is committed to promoting regulation reforms and also promoting fund investment and retirement planning education. Further, the SITCA will continue to assist its members in learning from other countries with mature asset management industries in order to create a win-win situation for the industry and investors.

Lastly, I urge our members and their major shareholders to take this opportunity to reflect, to reposition, and to create our core values. For example, the industry ought to move from the sales-centric approach to a customer-centric one, with an increased emphasis on asset alloca-

tion, strong stewardship, product innovation and customer service. The industry should no longer respond to the market with knee-jerk reactions. 2009 presents itself as not only a year full of volatility but also opportunities. The main challenge for the players is how to differentiate themselves from the competition. The SITCA will continue its efforts to aid its members through this challenging time.

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