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High dollar not the only concern for overseas investors

Blaming the high Australian dollar and its volatility for overseas investors' lack of interest in Australian equities is only part of the story, according to Mr Harvey Kalman, head of corporate fiduciary & financial services at Equity Trustees Limited (EQT).

“Other international markets have done much better than the ASX in recent years – for example the Dow Jones is almost at pre-2007 levels – but in Australia, despite having what is recognised internationally as a healthy domestic economy, the equity market has missed out on such growth levels and has mostly continued to struggle since 2007.

“There is more to the lack of international investors' interest in Australian investment products than a strong, volatile Australian dollar, and to think otherwise is deceiving ourselves.

“For example, investing through Australian funds is not attractive to overseas investors because our investment funds do not comply with what is generally regarded as the required standards internationally.

“This means that Australian investment vehicles are off the radar for investors from other countries.”

Mr Kalman said that it is imperative that Australia comes into line with the Collective Investment Vehicles (CIVs) approach now being used internationally, in particular Europe.

“For example, we should consider adopting similar standards to those of the Undertakings for Collective Investment in Transferable Securities (UCITS) developed by the European Commission.

“By doing so we could take advantage of the decades of work already put into their development, significantly reducing the work and lead time needed here to develop a vehicle international investors would instantly recognise.

“UCITS have now been adopted by all members of the European community as the preferred CIV structure. They have already made significant inroads internationally and are well regarded by the global investment community.

“The key to their success is that they can produce a new share class in the CIV, which may have a different base currency, or be hedged or unhedged for currency. This quarantines the effects of the different currencies to that share class.

“So, for example, depending on where an international investor is based or what their own preferences are, they could invest in an Australian bond fund in either an Australian dollar share class, Euro share class, or Hong Kong dollar share class and receive performance in their base currency.

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“Investors in other share classes would not wear the effects of currency movements that are unrelated to their own investments.

“This makes such Australian funds as easy to use by overseas investors as a European CIV structure.

“It also means that less Asian investment money will go to Europe and more will be invested into the region’s funds, thus creating greater economies of scale in these funds, which can be passed onto investors,” he said.

Mr Kalman added that for many years Australia was seen as a market leader in the funds management industry but it is now slipping from this leadership role.

“Currently Australian financial services development and regulatory improvements are mostly focused on advice and superannuation, with less attention given to developing better investment fund models to maintain our leadership position, meet international standards, and attract more investors.

“It takes time to bring around the kinds of changes needed, so if we don’t make a move now we will miss out, particularly on the Asian savings boom.

“Just waiting for the currency exchange rates to make our investments look more attractive is not an acceptable strategy.

“We need to adapt our investment vehicles so that they align with what is considered international best practice or even introduce “me too” structures that will support Australia’s leadership role in financial services in the Asian region and create jobs here,” he said.

About Equity Trustees: *Equity Trustees is a publicly listed company that provides a range of financial services to corporate and private clients. Its businesses include private client wealth management, funds management, responsible entity appointments, and corporate and personal superannuation. The company manages over \$4 billion in its funds management, private client and superannuation businesses and has more than \$19 billion under responsible entity administration. Equity Trustees employs over 180 people in its Melbourne, Sydney and Brisbane offices.*

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For more information please contact:

Harvey Kalman

Phone: 03 8623 5301

Email: HKalman@eqt.com.au

Equity Trustees Limited

AFSL No 240975 ABN 46 004 031 298

Level 2, 575 Bourke Street Melbourne Victoria 3000 Telephone (03) 8623 5000 Facsimile (03) 8623 5200

Email equity@eqt.com.au Website www.eqt.com.au