

**KEYNOTE ADDRESS BY MR LAWRENCE WONG,  
MINISTER FOR NATIONAL DEVELOPMENT  
AND 2ND MINISTER FOR FINANCE,  
AT THE INVESTMENT MANAGEMENT ASSOCIATION OF SINGAPORE (IMAS)  
20TH ANNIVERSARY CONFERENCE  
ON 23 MARCH 2017**

Mr Nicholas Hadow, Chairman of IMAS

Distinguished Guests

Ladies and Gentlemen

1. A very good morning to all of you. I am delighted to join you at the IMAS 20<sup>th</sup> Anniversary Conference today.

2. Let me start by congratulating IMAS on reaching this significant milestone. IMAS started in 1997 with 10 founding members. Today, you have more than 100 members who collectively manage over S\$800bn of assets in Singapore.

3. Over the last 20 years, IMAS has played an instrumental role in developing Singapore's financial sector, by being an active voice for the asset management industry, and also an important partner to the Monetary Authority of Singapore (MAS). In fact, IMAS has several key achievements under its belt:

- a. Served as Singapore's Sponsor of the Global Investment Performance Standards and developed the IMAS Guidelines on Corporate Governance in 2005;
- b. First industry association globally to provide Best Practice Guidelines for Investment Risk and Performance Analysis; and
- c. Developed the Singapore Stewardship Principles for Responsible Investors (SSP) last year, together with the Stewardship Asia Centre and nine other industry bodies.

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4. During these last 20 years, our asset management industry has also been transformed. Over this period, the total Assets under Management (AUM) in Singapore increased more than 20-fold to S\$2.6tr.

- a. We have built a vibrant and diversified base of over 600 traditional and alternative managers, supported by a strong fund-servicing ecosystem.
- b. The investor pool that our asset managers serve has widened beyond retail, to include private wealth investors and institutional clients such as pension and sovereign wealth funds.

5. All these would not have been possible without the collective efforts of IMAS and everyone gathered here. So this morning, I want to thank all of you for your contribution to the growth of our asset management sector, and once again congratulate IMAS on your 20<sup>th</sup> anniversary.

### **Global Outlook**

6. The theme of this year's Conference, 'Navigating the Unknown', is highly appropriate in light of our current situation.

7. Globally, we can expect a cyclical upturn in growth in the major economies this year. Whatever the US Administration does this year, growth will be better. So it's not about uncertainty this year, but about uncertainty going forward. There are security concerns in the external environment as we just saw yesterday in the terror attack in the UK.

- a. Demographics, ageing population and low productivity continue to impose a drag on the growth potential of developed economies.
- b. For example, if you look at the US economy – despite the highly visible success of tech companies which you see in the markets, these only account for a very small proportion of the overall economy. In fact, on the

whole, America is creating start-ups at lower rates every decade, and a smaller percentage of those start-ups are rising to prominence. And so, economists worry about secular stagnation, productivity and growth rates, not just in America but also the developed world at large.

- c. More generally, the developed economies need to press ahead with structural reforms, to raise productivity and to achieve higher growth. But these measures, not the protectionist kind, to reform the economies are never easy to do, and it's not clear if there is political will or consensus to make these changes. And the movements in the markets in the last one or two days reflect these underlying concerns.
- d. More worryingly, protectionist and anti-globalization sentiments are indeed on the rise – we just had a foretaste of this just recently at the G20 Finance Ministers' meeting in Germany which I attended. For the first time in the G20 and in a major forum, there was no consensus to articulate a position on free trade. I think it is a worrying trend that finance ministers from the major economies of the world gather to meet, and are seemingly unable to articulate a principled position against protectionism and to promote free trade. And it shows how far the world has changed.
- e. While we can see green shoots in the global economy, it's still not clear whether the green shoots will flourish, and it's still not clear whether the cyclical improvement in the global economy can be sustained.

8. These global trends pose challenges to all asset managers. Yet there are opportunities even in the difficult environment.

- a. Monetary easing over the last few years has created considerable global liquidity, and investors around the world are searching for higher returns.
- b. This is especially so in Asia, which remains the fastest growing region in the world. This outperformance is expected to continue over the medium-

term, underpinned by strong macroeconomic fundamentals, and the twin growth engines of China and India.

- c. Asia also has favourable demographics, with the proportion of working age population continuing to rise in most Asian economies. The emergence of a rising middle class, and on-going urbanisation, will continue to fuel the expansion in consumption and investment. These trends will create new investor pools that can be tapped by asset managers like yourselves.

### **Singapore's Asset Management Industry**

9. Within Singapore, we have made good progress as a financial centre. But we must not be complacent and we should not rest on our laurels. We have to build on the progress we have made over the last 20 years to reach greater success for our asset management industry. Let me highlight three broad suggestions on how we can achieve this together.

10. **First**, we must continue to strengthen trust in the asset management industry. At the heart of asset management is a simple relationship of trust. Yes, the relationship is contractual but is underpinned by trust – that is, I, the investor, give to you, the asset manager, my money to pool with monies from other investors, so that you can use your professional investment skills to manage my money on my behalf. That's what the relationship is about.

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11. The underlying assumption as an asset manager with superior expertise and economies of scale in investing, is that you will generate better returns over the longer-term for me, than I can by investing the money directly.

12. Now I understand that this is more challenging than it sounds.

- a. Investors everywhere have higher expectations of returns and are getting fussier on fees. I am sure all of you will understand this.

- b. Moreover, they always look at competing funds and products, including index instruments, which in some cases are outperforming managed funds at lower fees.
- c. This means that asset managers must up their game, and offer real value-for-money to investors to serve as long-term savings vehicles.

13. In going about this work, you must always uphold that relationship of trust with your investors. We have all read news of the trust deficit in certain financial institutions, and the harmful impact on reputation and business sustainability, when fairness and transparency are compromised. A lot of this happened during the global financial crisis in 2008, but we still can see institutions reeling from the impact today.

14. The asset management industry and the financial sector on the whole, is on a journey towards better public trust and confidence. It is important that we work even harder towards this goal, through greater consumer education, enhanced disclosure and fair dealing.

15. **Second**, the industry must continue to innovate and add value to investors. In particular, one new area we can pay greater attention to is sustainable investing.

16. Investors everywhere are allocating more capital to sustainable businesses, and integrating sustainability factors into their investment requirements.

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a. A recent study by Morgan Stanley found that more than 70% of investors surveyed were interested in sustainable investments.

- b. At the same time, there is growing evidence that good sustainability practices are also good for business, and can have a positive impact on companies' stock prices. Conversely, poor sustainability practices in companies can translate into operational risks, and pull down the business in the long term.

17. Contrary to the belief, which is quite widespread, that there is a trade-off between sustainability and profits, increasingly people are saying that the two come together, especially if you are looking at long-term sustainable profits. Sustainability can be good for business.

18. As a result, sustainable investments have gone mainstream, and the global sustainable investment market has nearly doubled in size over the last two years. Asset managers cannot ignore this opportunity. By incorporating sustainability factors into your investment processes, you can align your strategies with the objectives of investors towards projects with better sustainability outcomes.

19. Singapore is taking concrete steps to build a financial sector with a strong sustainability focus, and with initiatives launched across our banking, asset management, insurance and capital markets.

20. In the capital markets for example, the Singapore Exchange has introduced a new 'comply or explain' sustainability reporting requirement, signed up on the Sustainable Stock Exchanges Initiative as a partner exchange, and has published a range of Sustainability Indices.

21. As asset owners, MAS, GIC and Temasek also integrate sustainability considerations into their investment processes, which aim to deliver good long-term returns. Temasek, for example, takes a strong interest in not only understanding sustainability-related challenges, not just as a driver of business risk, but also of innovation and growth.

- a. For its part, I am glad that IMAS has issued a public statement endorsing its commitment to sustainability considerations and expressing support for global and local standards such as the United Nations Principles for Responsible Investment (PRI) and the Singapore Stewardship Principles for Responsible Investors (SSP).

- b. I encourage the asset management industry to pledge your support for these initiatives and embed these principles into your investment and decision-making processes.
- c. In adopting these principles, fund managers will also have to develop new skills to be able to proficiently embed sustainability considerations across asset classes and strategies or develop new sustainable products. In this regard, IMAS, together with other training providers, will be launching a series of master-classes to raise the capacity of our investment professionals. These will be co-funded under the Financial Sector Development Fund for up to 70% of qualifying costs incurred. I look forward to your participation in these master-classes.

22. MAS will also seek to promote the development of a wider range of sustainability-oriented benchmarks, funds and products to cater to growing demand.

23. And we will start with green bonds. I think there is potential here to develop a green bond market.

- a. The global green bond market has grown rapidly over the years, reaching more than US\$80bn in 2016. In Asia, the green bond market has also started to take off.

- b. In Singapore, we have a broad community of asset managers and institutional investors on the buy-side, and banks with strong debt-origination capabilities on the sell-side. So, this puts us in a strong position to support the development of a green bond market.

- c. The presence of a green bond market here will add to the breadth and depth of Singapore's debt market, providing buy-side participants with more investment opportunities, and supporting the growth of ancillary services as well.

24. MAS recognises that green bond issuers may have to bear additional costs, as they engage external reviewers to ascertain their green bond status.

- a. To kick-start the development of a green bond market in Singapore, MAS will introduce a Green Bond Grant scheme this year to incentivize the issuance of green bonds.
- b. Under the scheme, qualifying issuances can offset 100% of expenses attributable to obtaining an external review for green bonds, up to a cap of S\$100,000 per issuance.

25. **These are some of the things that we would like to do, to continuously innovate, add new products, add new options into the market. In particular, one new area is sustainable investments and we can move forward together in this space.**

26. **Thirdly and finally**, the Government will continue to do its part to ensure a conducive environment for the asset management industry to grow.

27. We will continue to review and update our regulations to stay abreast with changing requirements and changing needs. We have heard that MAS has introduced simplified regulations for venture capital managers, and we have also introduced regulatory sandboxes for FinTech.

28. We are also looking at corporate structures for investments. As all of you are aware, there are currently three types of structures used by investment funds in Singapore, namely unit trusts, companies formed under the Companies Act, and limited partnerships. At this conference last year, we said that MAS and ACRA were exploring the feasibility of introducing a new corporate structure for investment funds, to accommodate open-ended investment companies. These entities allow for the entry and exit of capital at any time, through the issuance of new shares and redemption of existing shares.

29. I am pleased to announce that MAS will be launching a public consultation today, to solicit feedback on the new corporate structure, which is called the Singapore Variable Capital Company, or S-VACC.



30. The S-VACC will complement our existing corporate structures with one that is tailored for investment funds. It will allow asset managers to further consolidate their operations in Singapore, by domiciling more of their funds here alongside their fund management activities. We believe this will spur demand for fund-servicing activities such as accounting, legal, custody and tax in Singapore, therefore creating more jobs in the broader professional services sector.

31. In addition, S-VACC provides greater flexibility and cost efficiency to asset managers:

- a. It allows for both open-ended and close-ended fund structures.
- b. It allows for investments across all asset classes, and may be used by both retail and private funds. S-VACCs can be listed and unlisted and invest in a wide range of asset classes, which will open up more options for retail investors to purchase shares in S-VACC funds, and invest beyond unit trusts.
- c. S-VACC will also allow asset managers to harness economies of scale, by consolidating administrative functions at the umbrella fund level. This means that sub-funds, with varying risk levels, different investment objectives and classes of investors can be housed together under the same umbrella as a single legal entity.

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32. The broad outlines of this proposed S-VACC structure are in the consultation document which MAS will be putting out. MAS will engage the industry actively to seek your feedback, including views on the regulatory and tax regime for S-VACCs.

### **Conclusion**

33. To conclude, Singapore's asset management industry has made great strides over the last 20 years. Looking ahead, despite the uncertainties, despite the many unknowns over the horizon, we should be confident about the potential of the asset management industry in Singapore. There is still growth ahead of us. The prospects

are good, and asset managers here are well positioned to take advantage of the growth around us in the region.

34. IMAS has grown alongside the industry over the last 20 years. You continue to be an important and critical platform, to bring asset managers together to strengthen our capabilities and ride our next wave of growth. I congratulate you once again on your 20<sup>th</sup> anniversary, and I wish you even greater success in the next 20 years to come. Thank you very much.

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