

**Keynote Address by Ms Indranee Rajah,
Senior Minister of State for Law and Finance, at the Investment Management
Association of Singapore (IMAS) 17th Annual Conference, 16 March 2016, at the
Ritz-Carlton, Millenia Singapore**

Mr Nicholas Hadow, Chairman of IMAS
Distinguished guests
Ladies and gentlemen

1. Good morning. I am delighted to join you at the IMAS 17th Annual Conference.
2. The theme for this year's conference – *Into the Future* – is apt in light of the fluctuating sentiments over the direction of the global economy and financial markets. Caught up in the short-term ups and downs, it is easy to lose sight of the bigger picture and longer term trends.
3. The annual IMAS conference therefore provides an invaluable forum for institutional investors, asset managers and members of the investment community to step away from the noise, and reflect on the key trends and ideas that will shape the industry in the years ahead. The sharing of views would be helpful to the Government in devising strategies to better position Singapore for the future.

**SINGAPORE ASSET MANAGEMENT INDUSTRY BENEFITS FROM LONG-TERM
MACROECONOMIC TRENDS**

4. The renewed market anxiety reflects some of the challenges confronting the global economy and financial system.

In China, an economic slowdown amid a debt build-up has raised concerns over the health of the world's second largest economy. In the long term, the transition from an export- and investment-driven economy towards one with consumption playing a bigger role, is expected to lead to more sustainable growth. In the interim, however, the on-going rebalancing has had significant spillover effects on other economies.

5. One such spillover is the plunge in global commodity prices as demand from China waned. This has brought about a steep decline in the terms of trade for commodity-producing emerging market economies.
6. In the developed economies, growth and inflation outcomes have been persistently weaker than expected, although the US economy seems to be more strongly entrenched on a recovery path. Amid the low-growth low-inflation environment, interest rates have declined significantly.
7. As asset owners and managers, many of you would be accustomed to periodic bouts of market stresses. Headline-grabbing as these market gyrations may be, they are unlikely to derail the longer-term macroeconomic dynamics that will

have a bigger impact on returns in the asset management industry. Let me briefly touch on three of them.

8. First, post-financial crisis, potential growth rates in the advanced economies are projected to decline further. Years of under-investment and weak productivity growth since the crisis have conspired with greying demographics to put a drag on growth.

9. On a brighter note, potential growth rates in emerging economies are likely to remain above those in the advanced economies, as they take advantage of the tremendous catch-up opportunities from a lower base. Even among emerging economies, there are significant differences in growth outlook.

10. And that brings me to my second point. While growth has slowed in many parts of the world, it remains significantly higher here in Asia, where domestic demand is more resilient and macroeconomic fundamentals arguably stronger.

- In 2015, emerging Asia as a whole achieved growth of about 6.5%, which is more than double the global average of 3.1%. This is also well above average growth rates in other emerging regions.
- In fact, growth is projected to remain stronger in emerging Asia than other emerging regions over the next few years.

11. The global economic centre of gravity continues to move towards Asia.

- China today is a US\$ 11-trillion economy – more than five times bigger than it was just 10 years ago. While economists may debate whether China will achieve the lower or higher end of its 6.5 to 7% growth target, its sheer size means that China remains an important growth driver for the region and beyond.
- India, with a GDP of just over US\$2 trillion and a population of more than 1.2 billion, is one of the fastest growing economies in the world today—growth is expected to come in at more than 7% this year.
- Closer to home, ASEAN has a combined GDP of US\$2.6 trillion in 2014 and a population of over 600 million – as a single entity, it would be the world's seventh largest economy.

12. What are the implications of these developments for the asset management industry?

- First, Emerging Asia will provide good opportunities for investors over the medium term. Asia's rising economic clout and growing middle class populations mean that the region is rising fast in importance as both a source and a destination for investments.
- Second, asset managers who achieve economies of scale, cost control or distinctive value propositions will enjoy competitive advantages as the

hunt for yield intensifies in a period of subdued global growth and moderate returns.

- Third, asset managers may also have to think hard about where they locate their businesses, as they weigh the benefits and costs of a fragmented footprint. Globally, managers are increasingly consolidating fund management and fund domicile. Asset managers will benefit from operating in financial centres with an international reputation for sound, credible regulatory frameworks and extensive Asian and global connectivity.

FOSTERING CONDUCIVE ENVIRONMENT FOR INDUSTRY

13. Over the years, the asset management industry in Singapore has performed well and has continued to prove its resilience in the face of global market stresses.

- As of end-2014, the total assets under management (AUM) in Singapore amounted to S\$2.4 trillion, with a 5-year compound annual growth rate of 14%.
- Underlining our role as a regional asset management centre, over 80% of AUM here are sourced from outside Singapore, with Asia Pacific region as both the largest source and recipient of funds.

14. The success of Singapore's asset management industry is in part fortuitous – Singapore is located in the heart of an economically dynamic region of growing global importance.

15. But it is also the outcome of government agencies working with the financial and investment community here – to develop and deepen Singapore's value proposition in asset management.

16. Asset managers in Singapore can readily tap on the large and diversified financial ecosystem of international banks, insurance and capital markets intermediaries here, as well as a large ancillary industry of professional services firms, including legal and accounting professions.

17. The Monetary Authority of Singapore (MAS), as financial regulator, administers a robust legal and regulatory infrastructure that is aligned with the highest international standards.

18. The asset management industry also benefits from Singapore's efforts to expand and strengthen linkages with global and regional markets.

- Singapore plays a key role in developing regional initiatives that provide asset managers here with enhanced access to more markets. These include the ASEAN Collective Investment Scheme and the Asia Region Funds Passport Scheme.

- Singapore has signed trade, investment and tax agreements with an extensive network of over 80 countries, including popular investment destinations like China, Australia, Indonesia and India.

19. MAS regularly reviews the regulatory framework and developmental initiatives to make sure they stay risk-appropriate, relevant to evolving market conditions and in line with the best international practices.

20. For example, MAS' development strategy for asset management had focused on encouraging the growth of front office activities, nurturing a facilitative ecosystem, and building linkages with regional markets. Singapore is now a leading regional asset management hub serving as a pan-Asian gateway for regional and global investors.

21. As Singapore's asset management industry has attained critical mass, depth and level of maturity, MAS is working on initiatives that will lend greater support to the entire value chain in asset management. These include:

- First, the introduction of new regulatory framework for open-end investment companies (or OEIC).
- Second, enhancements to the external fund manager (EFM) programme.

22. I will speak briefly about each of these proposals.

A CORPORATE INVESTMENT FUND STRUCTURE OFFERS GREATER FLEXIBILITY FOR INVESTMENT MANAGERS

23. MAS and ACRA are studying the introduction of an OEIC framework for investment funds that will facilitate local domicile of funds while continuing to ensure strong protection for investors.

24. An OEIC framework offers a more efficient fund administration structure for asset managers who domicile their funds in Singapore, compared to what is currently provided for under the Companies Act.

- For example, an OEIC caters to the core activities of an investment fund, which include the issuance and redemption of shares on a regular basis, valuation of a fund's net assets and the appointment of fund managers and fund custodians.
- It also allows an umbrella fund structure containing several sub-funds to be set up. These sub-funds can be operationally distinct with different investment objectives, investors as well as assets and liabilities.

25. The OEIC framework is therefore expected to encourage more asset managers to domicile their funds here and promote the development of the fund administration industry in Singapore.

26. The OEIC framework will also create more good jobs in the broader professional services sector in Singapore as well:

- OEIC will stimulate stronger growth in the number and sophistication of service providers and infrastructure supporting funds and managers.
- These include industries such as accounting and administration, legal and compliance, custody and depository, marketing and distribution, as well as IT and system support.

27. The framework is targeted to be rolled out within a year. MAS will release more details in due course and continue to engage industry and stakeholders in developing the OEIC framework.

ENHANCEMENTS TO MAS EXTERNAL FUND MANAGER PROGRAMME

28. Since 1999, MAS has been placing part of their funds for management with private sector fund managers. This has improved the diversification of MAS' investment portfolios as well as helped to anchor global asset managers here and build up Singapore's asset management industry.

29. **MAS will be enhancing the EFM programme.** The new EFM programme seeks to offer stronger incentives to fund managers who are committed to deepening their presence in Singapore.

- In particular, greater recognition will be given to managers who are committed to building their investment capabilities and strengthening their local talent pool to support the long-term development of their Singapore operations.

Conclusion

30. Ladies and Gentlemen, let me say a few words in conclusion.

31. Strong regional growth, a supportive regulatory infrastructure, and conducive financial eco-system – these are factors which have catalysed the development of the asset management industry in Singapore. Today, asset management is one of the key segments of our financial sector.

- The industry directly accounts for 10% of value-added and provides about 10,000 good jobs.
- It also contributes indirectly to the rest of the financial sector and the overall economy, helping to spur activities in foreign exchange and debt markets as well as business services like legal and accounting.

32. The proposals to introduce an OEIC framework and to enhance the EFM programme are some of the on-going initiatives that MAS, in partnership with the industry and other stakeholders, is working on to consolidate Singapore's position as Asia's premier fund management hub now and into the future. The long term prospects remain positive.

33. I wish you a robust and fruitful discussion at today's conference.

Thank you.

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