



# Australia's Managed Funds Market Update

Australia has one of the world's largest contestable pools of investment fund assets. This has been underpinned by Australia's mandatory retirement income system introduced in 1992. In March quarter 2009, Australia had A\$1.2 trillion<sup>(a)</sup> (US\$950bn) in funds under management. Total assets have grown more than 300 per cent since 1994. Australia's funds under management (FUM) are equivalent in size to the country's nominal GDP and represent more than 120 per cent of the domestic equity market capitalisation. Australia's investor base is sophisticated and outward looking with significant exposures to global markets and alternative asset classes. Australia's FUM industry is also looking to export services to the region, drawing on its strengths in portfolio construction, risk management, wealth advisory and distribution capabilities and funds administration and custody services.

- Total consolidated assets of managed funds institutions grew by almost A\$900 billion to A\$1,169 billion since 1994. This represents a compound annual growth rate of 10 per cent. The institutions benefiting most were superannuation funds<sup>(b)</sup> and public unit trusts, which grew by 12.7 per cent and 14.4 per cent per annum to A\$705 billion and A\$251 billion respectively.
- Superannuation funds have dominated Australia's FUM industry, obtaining 60 per cent market share. Including funds held by life insurance offices<sup>(c)</sup>, total superannuation fund (unconsolidated) assets accounted for around 75 per cent of the country's total FUM. In its March 2009 report, the *Dynamics of the Australian Superannuation System: the next 20 years 2009-2028*, Deloitte indicates that Australia's superannuation assets are expected to top A\$2 trillion by 2014, A\$3 trillion by 2019 and A\$7 trillion by 2028.
- Australia's market has a global nature with 11 of the 20 largest investment managers<sup>(d)</sup> having overseas origins, mainly from the USA and Europe. The market share of these 11 companies accounted for 31 per cent of the country's total FUM in March quarter 2009. The strong presence of foreign-owned companies reflects the increased attractiveness and global significance of Australia's funds management industry in the region.
- In terms of funds management, funds from wholesale (institutional) sources accounted for around 66 per cent of FUM in March quarter 2009.<sup>(d)</sup> Foreign funds management companies have been active in the Australian wholesale market with 10 companies being in the 20 largest globally. Total FUM of these foreign companies was more than A\$252 billion, accounting for around 35 per cent of the wholesale market.
- The retail market has been dominated by large domestic institutions with 13 out of the 20 largest fund managers of local origin<sup>(d)</sup>. Total FUM of these domestic companies were almost A\$300 billion, accounting for 80 per cent of the retail market.
- The continued growth in FUM has seen a rise in demand for international investments, demonstrated by the high percentage of foreign assets held by Australian funds. In March quarter 2009, foreign assets held were 18 per cent of Australia's FUM, up from 16 per cent 15 years ago. The sophistication of the nation's FUM industry and increasing demand for international product and alternatives, such as private equity and hedge funds, will continue to encourage global fund managers to establish and expand operations in Australia.

## AUSTRALIA'S INVESTMENT FUNDS (CONSOLIDATED ASSETS, A\$ BILLION) – 1994 TO 2009

	Total <sup>(1)</sup>	By Type of Institution				By Type of Asset				
		Superannuation Funds	Life Insurance Offices <sup>(2)</sup>	Public Unit Trusts	Other <sup>(3)</sup>	Equities and Units in Trusts	Assets Overseas	Cash and Deposits	Land and Buildings	Other <sup>(4)</sup>
March 1994	282	117	111	33	20	79	45	17	32	109
March 1999	503	215	160	89	40	149	88	33	55	178
March 2004	733	362	170	158	44	286	132	55	91	168
March 2009	1,169	705	157	251	56	382	209	165	152	261
% of Fund Assets	100.0	60.3	13.5	21.4	4.8	32.7	17.9	14.1	13.0	22.3
% of GDP	106.9	64.5	14.4	22.9	5.1	34.9	19.1	15.1	13.9	23.8
CAGR % Since 1994	10.0	12.7	2.3	14.4	7.2	11.0	10.8	16.4	11.1	6.0

CAGR = Compound Annual Growth Rate

Note: The US\$/A\$ exchange rate was US\$0.8114 as at 30 June 2009 (sourced from Reserve Bank of Australia statistics); the nominal value of Australia's GDP in the year to 31 March 2009 was A\$1,093 Billion.

(1) Total may not add up due to rounding. (2) Figures include superannuation funds held in statutory funds for life insurance offices. (3) The combined assets of cash management trusts, common funds and friendly societies. (4) The combined assets of loans and placements, short-term securities, long-term securities and other assets.

Sources: Australian Bureau of Statistics (ABS), cat. no. 5655.0, *Managed Funds Australia*, Table 1, *Time Series Workbook*; ABS cat. no. 5206.0, *National Income, Expenditure and Product*, *Time Series Workbook*, Table 3; Austrade

(a) ABS, cat. no. 5655.0, *Managed Funds*, March 2009, Table 1.

(b) 'Superannuation' is the term used in Australia to describe the setting aside of income for retirement. 'Superannuation funds' are the same investment vehicles as those known in other countries as 'pension funds'.

(c) RBA Bulletin Statistical Tables, B18, *Managed Funds*.

(d) Morningstar, *InvestorSupermarket Market Wrap*, March quarter 2009.