



Australian Government

Austrade

# The Hedge Funds Industry in Australia 2008



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# Introduction

Australia's A\$70.3 billion (US\$59.7bn<sup>(1)</sup>) hedge fund industry is the largest in Asia.

The nation's hedge fund managers control around 35 per cent more assets than managers in Hong Kong and around 130 per cent more than managers in Singapore.

More than two-thirds of Australia's hedge fund assets are deployed in markets outside the country – demonstrating the industry's international sophistication.

The success and growth of hedge funds in Australia have been aided by access to a highly skilled and experienced talent pool, drawn from the nation's sophisticated managed funds and investment banking community. Indicative of this capability and depth are the rankings of Australia's stock market as the largest free-float equity market in Asia (ex Japan)<sup>(2)</sup>, its international debt securities market as the largest in Asia<sup>(3)</sup>, and its foreign exchange market as the fastest growing amongst the region's top four financial centres (Australia, Japan, Hong Kong and Singapore)<sup>(4)</sup>.

The hedge funds industry forms part of Australia's A\$1.33 trillion (US\$1.13 tn) managed funds industry, the largest in the region<sup>(5)</sup>, which has been supported by a growing mandatory pension fund scheme and a large pool of high net worth individuals and retail investors. Australia has been recognised as the best country in the world for funds management firms to do business<sup>(6)</sup> and Australia's contestable pension assets are set to become the largest in Asia by 2015<sup>(7)</sup>.

Australia's hedge funds industry has attracted, and is supported by, strong service providers. Their provision of administration, custodian, legal, accounting, risk management, structured product and prime brokerage services within the sound regulatory and governance framework that underpins Australia's financial services industry, is an important attribute of the industry.

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(1) All currency conversions use an exchange rate: A\$1 = US\$0.8487, the rate as at 29 June 2007, sourced from Reserve Bank of Australia, unless otherwise stated.

(2) Standard & Poor's, *Global Stock Market Review, The World by Numbers, July 2007*.

(3) Bank for International Settlements (BIS), *Quarterly Review, June 2007*.

(4) BIS, *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2007*.

(5) Australian Bureau of Statistics, *Managed Funds Australia*, June Quarter 2007 cat. no. 5655.0 and Investment Company Institute, *Worldwide Mutual Fund Assets and Flows, March quarter 2007*.

(6) Lodestar Favourability Indicators, *Cerulli Global Update Mid-Year, 2005*.

(7) Allianz Global Investors, *Asia-Pacific Pensions, Reform Trends and Growth Opportunities*, June 2005.

# The Hedge Funds Industry in Australia

## Size of the Australian Hedge Funds Industry

Hedge fund managers located in Australia control A\$45.5 billion (US\$38.6 bn) in assets, the largest amount in Asia.

### Hedge Fund Centres in Asia

Location of Hedge Fund Managers Operating in Asia	Assets in US\$ Billion
<b>Australia</b>	<b>38.6</b>
Japan	17.3
Hong Kong	28.3
Singapore	16.5
Other	5.0
Sub total	105.7
UK [managers with Asian strategies]	22.9
US [managers with Asian strategies]	39.1
<b>Total</b>	<b>167.7</b>

Source: AsiaHedge, as at 30 June 2007. Excludes fund of hedge funds

When Australia's A\$24.8 billion (US\$21.1bn) fund of hedge fund sector is included, the size of the Australian hedge fund industry increases to A\$70.3 billion (US\$59.7bn).

### Total Size of the Australian Hedge Funds Industry

Assets Under Management	US\$ Billion
Hedge fund managers*	US\$38.6 (A\$45.5)
Fund of hedge funds**	US\$21.1 (A\$24.8)
<b>Total</b>	<b>US\$59.7<sup>(1)</sup> (A\$70.3)</b>

(1) Unadjusted for double counting. Anecdotal evidence suggests that adjustments for double counting will not materially reduce the total figure.

Sources: \*AsiaHedge, \*\*LCA Group, as at 30 June 2006

## Growth of the Australian Hedge Funds Industry

The Australian industry is also growing at a rapid pace. Assets under management by hedge fund managers have grown seven-fold in the past five years.

### Growth in Hedge Funds Assets under Management

Year (as at 30 June)	Assets Under Management A\$ Billion
2000	2 <sup>(1)</sup>
2001	4 <sup>(1)</sup>
2002	10
2003	18
2004	26
2005	45 <sup>(2)</sup>
2006	60.1
2007	70.3

(1) Estimates.

(2) Data for 2005 was revised upwards from A\$35bn to A\$45bn.

Source: LCA Group, as at 30 June 2007

The number of managers and products has also increased strongly. There are now 71 hedge funds managers in Australia, up from just 27 five years ago. The number of single strategy hedge funds products has tripled since 2002 to 139.

### Growth in Australian-Based Products and Managers

Year	No. of Single Strategy Hedge Fund Products	No. of Fund of Hedge Fund Products	No. of Managers Hedge Funds	No. of Managers Fund of Hedge Funds
2002	45	22	27	13
2003	65	28	42	15
2004	86	40	49	15
2005	115	46	59	16
2006	130	58	66	17
2007	139	61	71	24

Source LCA Group. As at 30 June 2007

## Investment Strategies

The Australian hedge funds industry covers global, regional and domestic markets. Seventy one per cent of assets managed by Australian hedge fund managers are deployed using global or regional investment strategies, demonstrating the availability of sophisticated international investment skills within the country.

### Investment Strategies of Australian Hedge Fund Managers

Strategies	Assets under Management US\$ billion	Number of funds
Global Long Short and Absolute	17,423	16
Asia Long Short and Absolute	4,203	9
Japan Long Short and Absolute	3,054	7
Global Macro	1,820	6
Global Arbitrage; FX and Multi-Strategy	767	10
Global Managed Futures and Commodities	272	11
Global Fixed Income	200	2
<b>Sub Total Global and Asian Strategies (71.8% of Total)</b>	<b>27,739</b>	<b>61</b>
Australia Long Short and Absolute	9,480	42
Australia Market Neutral	1,119	8
Australia Event Driven	276	6
<b>Grand Total (100%)</b>	<b>38,614</b>	<b>117</b>

*Source: AsiaHedge as at 30 June 2007 (rounding by the Department of Innovation, Industry, Science and Research) excludes fund of hedge funds*

The 71 hedge fund managers in Australia offer a wide range of strategies including: long/short; relative-value; arbitrage; event-driven and macro strategies in global and regional equities; fixed income/credit; derivatives and futures.

This is indicated by the major hedge fund managers listed on page 5.

## Major Hedge Fund Managers in Australia

Fund Manager	Assets Under Management US\$ Billion	Main Strategies
1 Platinum Asset Management	21,850	Global and Asian long/short
2 BGI	3,819	Equity long/short, macro
3 PM Capital	2,801	Global and Asian long/short
4 Ellerston Capital	2,400	Global long/short
5 GMO Australia	2,300	Global/Australian equities and Tactical Asset Allocation
6 Grinham Managed Funds	1,700	Global macro/futures
7 Portfolio Partners	1,431	Australian long/short
8 Kaiser Trading	1,236	Global macro/futures
9 Optimal Fund Management	1,208	Asia and Japan long/short
10 MQ Specialist Investment Management	1,068	Asian equities, global futures
11 WestLB Mellon Management	926	Australian long/short
12 K2 Asset Management	610	Australian & Asian long/short
<b>Sub Total</b>	<b>41,349</b>	
<b>Fund managers ranked 13 to 71</b>	<b>4,500</b>	
<b>Grand total</b>	<b>46,849</b>	

Source: LCA Group. As at 30 June 2007. Data is for managers' single strategy hedge funds only and excludes managers' fund of hedge fund products

## Growth Environment

There are 139 single manager hedge fund products and 61 fund of hedge fund products in Australia<sup>(8)</sup>. Comparisons to the number of products in other Asia-Pacific nations are provided in the table below.

### Number of Hedge Fund Products by Location

	2001	2002	2003	2004	2005	2006	Jun-07
<b>Australia</b>	<b>33</b>	<b>46</b>	<b>73</b>	<b>98</b>	<b>121</b>	<b>137</b>	<b>145</b>
Hong Kong	41	58	73	98	128	169	177
Japan	17	25	36	46	61	70	74
Singapore	19	26	44	65	86	126	130
<b>Grand Total</b>	<b>110</b>	<b>155</b>	<b>226</b>	<b>307</b>	<b>396</b>	<b>502</b>	<b>526</b>

Source: EurekaHedge. Covers single strategy hedge fund products, excludes fund of hedge funds. All data is at 31 December except 2007

This rapid industry growth has spurred the development of specialist fund incubators that typically take equity stakes in hedge and boutique fund managers in exchange for seed capital and management and administrative services. There are 16 such incubators or specialist fund investors in Australia.

(8) EurekaHedge, AsiaHedge and LCA Group data differ slightly.

## Australian Hedge Fund and Boutique Fund Incubators/Investors

■ Ascalon Capital Managers	■ HGL Ltd	■ Pinnacle Investment Management
■ Challenger Financial Services	■ Macquarie Bank	■ Saltbush Capital
■ Contango Capital Partners	■ Magellan Financial Group	■ Treasury Group
■ Dawnay Day Walden	■ MFS Alternative Asset	
■ Equity Trustees	■ Pengana Capital	

Source: Basis Point Consulting

Hedge fund launches in Australia have been aided by low start-up and annual running costs. Australia has the lowest annual recurring costs within the key centres in Asia.

## Start-Up and Running Costs

	Start-Up Costs US\$ Low-to-High Range	Annual Recurring Costs US\$ Low-to-High Range
<b>Australia</b>	<b>81,000 to 195,000</b>	<b>162,000 to 340,000</b>
Singapore	54,000 to 117,000	211,900 to 318,900
Hong Kong	60,000 to 305,000	195,000 to 612,000
Japan	190,000 to 530,000	357,000 to 880,000

Source: Ernst & Young. Reproduced with the permission of AsiaHedge, published by HedgeFund Intelligence. Ernst & Young estimates that start-up costs are now 5% higher at the top end, as at October 2007.

## Fund of Hedge Funds

A key component of the hedge funds industry is the Australian fund of hedge fund and structured hedge fund product sector that accounts for A\$24,840 million (US\$21,100 mn) in assets and is regarded anecdotally as Asia's largest.

Fund of Hedge Fund Entity	Assets Under Management A\$ Million
1 Man Investments Australia	6,400
2 HFA Asset Management	3,880
3 Everest Babcock & Brown	3,300
4 Warakirri Asset Management	2,188
5 BT Financial	1,750
6 Harris Associates	1,560
7 AMP	1,200
8 Colonial	862
9 GMO	700
10 Ellerston Capital	600
<b>Sub Total</b>	<b>22,440</b>
Other 14 Fund of hedge funds	2,400
<b>Grand Total</b>	<b>24,840</b>

Source LCA Group. As at 30 June 2007. The total number includes around A\$7 billion in structured fund of hedge funds products offered by various fund of hedge funds entities

## Australian Investors

Australian pension funds, high net worth individuals and retail investors represent some of the largest investment pools in Asia. According to the Investment Company Institute, Australia's investment (mutual) fund asset pool is the fourth largest in the world<sup>(9)</sup>. Funds under management in Australia reached A\$1.33 trillion (US\$1.13 bn) in the June quarter of 2007<sup>(10)</sup>.

### Australian Pension Fund Investors

'The Australian pension system is often considered a role model not only for Asia, but for other countries around the world as well. Thanks to its well-established and mandatory occupational pillar, Australia has one of the most developed pension markets worldwide,' according to Allianz Global Investors' *Asia-Pacific Pensions 2007, Systems and Markets, Report*, released in November 2007.

The largest allocator of monies to the Australian investment (mutual) fund industry is the superannuation (pension) fund market.

The pension fund industry had a total of A\$1.15 trillion under management as at 30 June 2007, up 25.1 per cent from a year ago. The industry consists mainly of 575 institutional pension funds with a total of A\$819.5 billion in assets, and nearly 360,000 Self Managed Super Funds (SMSFs), typically run by wealthy individuals and families, with a combined A\$287.7 billion in assets. With the exception of SMSFs, which are supervised by the Australian Tax Office, superannuation funds are regulated by the Australian Prudential Regulation Authority (APRA), and the Australian Securities and Investments Commission (ASIC), under the *Superannuation Industry (Supervision) Act 1993* (commonly known as the SIS Act) and the *Corporations Act 2001*. This legislation imposes obligations on the trustees of the funds, auditors and actuaries.

### Australian Superannuation Fund Industry

Fund Type	Number of Entities	Assets A\$ Billion
Corporate	290	71.9
Industry	75	198.1
Public sector	39	177.5
Retail	171	372.0
<b>Sub total</b>	<b>575</b>	<b>819.5</b>
Pooled superannuation trusts (PST)	101	81.1*
Self managed super funds	359,370	287.7
Balance of life office statutory funds	0	42.6
Other	6,167	3.5
<b>Total</b>	<b>366,213</b>	<b>1153.3</b>

Source: Australian Prudential Regulation Authority, *Quarterly Superannuation Performance, June 2007*. \*PST assets are not added to the total as they are captured in other superannuation categories

Australia's contestable pension fund market is the largest in Asia with EUR 606.7 billion (A\$950 billion<sup>(11)</sup>) under management in 2006. This market is projected to reach EUR 1,466.4 billion (A\$2,296 billion<sup>(11)</sup>) by 2015, making it larger than Japan, Singapore, and Hong Kong combined. This is shown in the table overleaf. In Australia, there is no real distinction between 'public' and 'private' pension funds, as all pension funds are contestable.

(9) Investment Company Institute, *Worldwide Mutual Assets and Flows*, March quarter 2007. 'Investment Fund' refers to publicly offered, open-end fund investing in transferable securities and money market funds.

(10) Australian Bureau of Statistics, *Managed Funds Australia*, June Quarter 2007 cat. no. 5655.0.

(11) Exchange rate as at 15 October 2007, A\$1 = EUR 0.6388, sourced from Reserve Bank of Australia statistics.

## Pension Assets Under Management in Asia – EUR Billion

Country	2006	2015
Australia	606.7	1,466.4
Japan*	548.9	600.4
Singapore**	63.7	107.5
Hong Kong***	42.3	99.2

\* Excludes the EUR560 billion Government Pension Investment Fund

\*\* Includes the EUR63.1 billion Central Provident Fund

\*\*\* Includes the EUR20.8 billion Mandatory Provident Fund

Source: Allianz Global Investors, *Asia-Pacific Pensions 2007, Systems and Markets*, November 2007.

## High Net Worth Individuals

Among the four major financial centres in Asia, Australia has the highest number of high net worth individuals ex Japan.

### High Net Worth Individuals in Asia

Country	Number of High Net Worth Individuals <sup>(1)</sup>
Japan	1,477,000
Australia	161,000
Hong Kong	87,000
Singapore	67,000
<b>Other</b>	
India	100,000
South Korea	99,000
China	345,000

(1) High net worth individuals are defined as having at least US\$1 million in financial assets.

Source: *World Wealth Report 2007*, Merrill Lynch and CapGemini

Australia has 32 billionaires, according to the 2007 BRW Rich 200 list. The country's richest 200 individuals/families have total net wealth of A\$128.6 billion, with the average fortune worth A\$688 million. Cut off for entry to the 2007 list is A\$180 million.

Another indicator of Australia's HNWI market is the existence of nearly 360,000 SMSFs worth a combined A\$287.7 billion (US\$244.2bn)<sup>(12)</sup>. These 'mini pension funds,' each controlling around A\$800,000 on average, are typically established by high net worth and 'mass affluent' individuals as their private pension fund, where they take responsibility for asset allocation decisions.

## Retail Investors

Australian total household wealth (combining retail and high net worth individuals) is more than four-times that of Singapore and more than double that of Hong Kong. In addition, wealth in Australia grew roughly six-times faster than in both Hong Kong and Singapore from 2000 to 2005.

(12) Australian Prudential Regulation Authority, *Quarterly Superannuation Performance*, June 2007.

## Total Wealth of Households and Per Cent Growth

Country	Financial Assets US\$ Trillion	Per Cent Growth 2000-05
Australia	1.3	14.5
Hong Kong	0.5	2.1
Singapore	0.3	2.8

Source: The Boston Consulting Group, Wealth Market Sizing Database 2006

Australia has one of the world's highest percentages of individuals with direct and indirect (via managed funds) investments in the stock market<sup>(13)</sup>. Australia also has an active retail market in futures, margin FX, contracts for differences, warrants and exchange traded options.

Approximately 7.3 million people, or 46 per cent of the Australian adult population, participated in the Australian share market in 2006, either directly via shares or indirectly via a managed fund or SMSF, according to the ASX Australian Share Ownership Study 2006.

Investment into managed funds by retail investors is commonly advised by financial planners and allocated via master trust or wrap platforms. These platforms are essentially administrative structures, mostly offered by major financial institutions, which provide investors with a single access point to multiple managed funds.

## Australian Investors in Hedge Funds

Investors allocating to Australian hedge funds and fund of hedge funds include Australian high net worth individuals, retail and pension fund investors, as well as offshore institutional investors.

### Investors in Hedge Funds and Fund of Hedge Funds

Investor Type	Per Cent Allocation
Australian high net worth and retail	65
Australian pension funds	20
Offshore institutional investors	15
<b>Total</b>	<b>100</b>

Source: LCA Group. Estimates as at 30 June 2007

## High Net Worth Individuals and Retail Investors in Hedge Funds

Australian high net worth individuals and retail investors have made significant allocations to hedge funds, particularly to fund of hedge funds and structured hedge fund products. For example, Australia's largest three fund of hedge funds, accounting for A\$13,580 million (US\$11,525) in assets, each sources the majority of its monies from high net worth individuals and retail investors. In comparison, as at 31 March 2006, the total asset size of Hong Kong's retail hedge fund market was approximately US\$1,150 million<sup>(14)</sup>.

In addition, the Australian Stock Exchange offers a Listed Managed Investment (LMI) program that has garnered more than A\$1,354 million (US\$1,149m) from predominantly retail investors into fourteen listed hedge fund and absolute return funds<sup>(15)</sup>.

<sup>(13)</sup> Australian Stock Exchange, 2006 Australian Share Ownership Study, page 35.

<sup>(14)</sup> Hong Kong Securities and Futures Commission [SFC], Press Release, 18 October 2006.

<sup>(15)</sup> Australian Stock Exchange, Listed Managed Investment Monthly Update, August 2007.

## Pension Fund Investors in Hedge Funds

Australian pension funds have been increasing their allocation to hedge funds over recent years with the number of institutions allocating to the sector climbing from 3 per cent in 2001 to 32 per cent in 2005.

### Percentage of Institutional\* Investors (by region) Allocating to Hedge Funds

Year	Australia	North America	Europe	Japan
2001	3	17	15	30
2003	18	23	21	41
2005	32	27	35	59

\*Institutional investors surveyed can be described as large endowments, foundations and pension plans.

Source: 2005-2006 Russell Survey on Alternative Investing, Russell Investment Group. No survey data on the Asian region was published.

From 30 June 2003 to 30 June 2007, at least A\$6,593 million (US\$5,595.5 million) was allocated by Australian superannuation funds to hedge funds and fund of hedge funds through the advice of asset consultants.

### Asset Consultants Advising on Hedge Fund and Fund of Hedge Fund Allocations

Asset Consultant	Total Allocated by Clients – 30 June 2003 to 30 June 2007 A\$ Million
JANA Investment Advisers	3,084
Watson Wyatt	1,374
Mercer IC	612
Frontier Investment Consulting	530
Russell	461
Intech Investment Consultants	160
Access Economics	148
Counterpoint Consulting	93
Strategic Capital Management	81
Aon Consulting	50
<b>Total</b>	<b>6,593</b>

Source: InvestorSupermarket; InvestorInfo Ltd. Cumulative allocations 30 June 2003 to 30 June 2007.

Pension fund allocations have been made to a wide range of hedge funds and fund of hedge funds, both domestic and international. The ten largest allocations amounted to A\$7,404.6 million (US\$6,284.3 million).

## Ten Largest Superannuation Fund Allocations to Hedge Fund/Fund of Hedge Funds

Fund	Allocated to Manager as at 30 June 2006	Amount A\$ Million	Total A\$ Million
<b>ARIA*</b>	Perpetual Investments, Suncorp Investment Funds, Harris Alternatives LLC, Mesirov Financial Holdings Inc, Barclays Global Investors, Platinum Asset Management, Bridgewater Associates, GMO Australia, Orbis Investment Management, Holowesko Global Fund		<b>2,803.6</b>
<b>REST</b>	GMO Australia	319.0	
	Harris Alternatives L.L.C.	103.7	
	Holowesko Global Fund	350.6	
	Mesirov Financial Private Equity Partners	299.6	
	Templeton	368.7	
	Warakirri Asset Management	322.6	<b>1,764.2</b>
<b>Health Super</b>	Barclays Global Investors	135.5	
	Bridgewater Associates	177.8	
	FRM Investment Management	217.5	
	UBS Global Asset Management	220.9	<b>751.7</b>
<b>UniSuper</b>	GMO Australia	188.0	
	State Street Global Advisors	229.0	<b>417.0</b>
<b>Qantas Super Plan</b>	BT Financial Group	139.8	
	Goldman Sachs JBWere Asset Management	77.4	
	UBS Global Asset Management	134.9	<b>352.1</b>
<b>CARE Super</b>	FRM Investment Management	48.5	
	Harris Alternatives L.L.C.	89.0	
	Holowesko Global Fund	94.3	
	Warakirri Asset Management	56.0	<b>287.8</b>
<b>Sunsuper</b>	Arrowstreet Capital	41.6	
	Colonial First State Investments	16.9	
	GMO Australia Limited	65.3	
	HFA Asset Management	67.0	
	Lazard Asset Management	125.1	<b>315.9</b>

## Ten Largest Superannuation Fund Allocations to Hedge Fund/Fund of Hedge Funds

Fund	Allocated to Manager as at 30 June 2006	Amount A\$ Million	Total A\$ Million
<b>QLGSS</b>	AMP Capital Investors	146.2	
	BT Financial Group	79.1	
	UBS Global Asset Management	67.0	
<b>Vision Super</b>	Bridgewater Associates	65.5	
	HFA Asset Management	61.8	
	Quellos Group	69.7	
	Warakirri Asset Management	69.8	292.3
<b>Local Super SA-NT</b>	Barclays Global Investors	16.2	
	GMO Australia	50.6	
	Holowesko Global Fund	50.3	
	State Street Global Advisors	36.1	153.2
<b>TOTAL</b>			<b>7,404.6</b>

Source: \*Advised by fund as at 30 June 2006. All other data from InvestorSupermarket; InvestorInfo Ltd.

**Disclaimer:** Tables on pages 10-11 are provided by InvestorInfo Ltd ABN 22 088 838 779 (InvestorInfo) and have been prepared in good faith. The information is derived from sources believed to be accurate and current as at the date of publication, however InvestorInfo gives neither guarantee nor warranty nor makes any representation as to the correctness or completeness of the information presented. The material in these tables provides general information only. It is not intended as advice and must not be relied upon as such. You should make your own inquiries and seek independent advice tailored to your specific circumstances prior to making any decisions.

## Service Providers to the Hedge Funds Industry

A number of service providers have established operations in Australia, or are marketing into Australia, to capitalise on the rapid industry growth. The presence of these services in turn contributes to Australia's hedge fund industry operating within an environment with a sharp focus on risk assessment and management.

### Hedge Fund Administrators

Citco Fund Services runs its Asia-Pacific headquarters from Sydney while Kingsway Taitz Fund Administration has also been established. A number of major administrators market to Australia's hedge funds community from offshore.

### Prime Brokers

Prime brokers with Australian-based teams include Credit Suisse, Citigroup Global Markets, Deutsche Bank, Merrill Lynch, Morgan Stanley, Fortis Clearing and UBS.

### Other Providers

Other firms providing a range of brokerage/trading and/or structured products/derivatives/financing services to hedge funds from Australian-based teams include ABN AMRO, ANZ Investment Bank\*, Austock\*, Bank of America, BBY, Barclays Capital, BNP Paribas, Calyon Financial Group, Daiwa Securities SMBC, Fimat, Goldman Sachs JBWere, Grange Securities, ING Bank, Instinet, Pacific, ITG\*, JP Morgan, Macquarie Bank\*, MF Global Australia, nabCapital, Nomura Australia, Opes Prime\*, Rabobank\*, Royal Bank of Scotland, Société Générale Corporate & Investment Banking, Tricom\* and Westpac Institutional Bank\*(16).

Legal providers with Australian-based teams include Henry Davis York, DLA Phillips Fox, Mallesons Stephen Jaques, Pillsbury Winthrop Shaw Pittman, Allens Arthur Robinson\*, Blake Dawson Waldron\*, and Minter Ellison\*(17). Accounting and business services providers include Ernst & Young, KPMG and Pricewaterhouse Coopers\*(18).

International hedge fund research and advisory firms with Australian clients include Federal Street Advisors, Gottex Fund Management, Grosvenor Capital Management, Harcourt Investment Consulting, Lighthouse Partners and Mesriow Financial.(19) Other hedge fund focussed advisory firms operating in Australia include Hatfield Liptak Advisors, Cambridge Associates, and Greenwich–Van(20).

Macquarie University, in conjunction with fund of hedge fund manager, Colonial First State, offers a specialist postgraduate course on hedge funds as part of the university's Master of Applied Finance course. It is one of the few specialist hedge fund programmes offered by a university anywhere in the world.

Research firms providing hedge fund product research to financial planners and investors include AEGIS, Lonsec, van Eyk Research, Morningstar, S&P and Zenith Investment Partners.(21).

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(16) List compiled from the *Cure Our Kids Asia-Pacific Hedge Fund and Alternatives Directory for 2006 and 2007*, which is produced with the support of the Alternative Investment Management Association Australian Chapter. \*Not in directory.

(17) Ibid.

(18) Ibid

(19) Van Eyk, *Hedge Fund of Funds Sector Overview*, November 2005.

(20) Via an Australian joint venture Van MacDonald.

(21) Basis Point Consulting research.

# Regulation of the Hedge Funds Industry

Australia's regulatory framework is regarded among the world's best, with the International Monetary Fund (IMF) having rated Australia as having one of the most financially sound markets in the world.<sup>(22)</sup>

The four main financial market regulatory institutions are:

**Reserve Bank of Australia (RBA)** – In addition to its monetary policy role, the RBA promotes efficient and effective payment systems. It is responsible for the systemic stability of the financial system.

**Australian Prudential Regulation Authority (APRA)** – APRA is the prudential regulator for banks and other deposit taking institutions, general and life insurers, superannuation trustees and friendly societies.

**Australian Securities and Investments Commission (ASIC)** – ASIC oversees corporation laws and licensing requirements for financial institutions. ASIC is responsible for market integrity and consumer protection.

**Australian Competition and Consumer Commission (ACCC)** – ACCC is responsible for competition and fair trade issues.

There are no specific regulations covering hedge funds in Australia. Like other types of managed funds, hedge funds fall under the scope of the Corporations Act 2001; the provisions that apply depend on whether they are structured as trusts or companies.

In the case of a trust, if a hedge fund is marketed to retail investors, then it must be registered with the Australian Securities and Investments Commission (ASIC) and is subject to certain operational and disclosure requirements designed to protect investors' interests. These requirements include the appointment of a responsible entity charged with certain fiduciary duties, the provision of adequate product disclosure statements and annual or semi-annual reporting of financial statements.

Hedge funds that do not accept funds from retail investors are subject to fewer requirements, as their investors are considered to be better placed to monitor and manage their investments without government regulation. Hedge funds structured as companies must comply with provisions covering capital raisings, corporate governance and disclosure requirements<sup>(23)</sup>.

Most significantly, apart from registration of the retail funds themselves, all hedge fund managers (whether their funds are retail or wholesale) must hold an Australian Financial Services Licence issued by ASIC under Chapter 7 of the Corporations Act 2001. All licensees have ongoing compliance requirements.

In general, Australia's financial regulatory environment is highly regarded in other jurisdictions around the world. Its political and legal institutions are recognised globally for their transparency, impartiality and robustness, and the quality of corporate governance in Australia is ranked among the best in the world<sup>(24)</sup>.

## Taxation

The tax treatment of hedge funds is covered by the Foreign Investment Fund (FIF) regime contained in Part XI of the Australian Income Tax Assessment Act, 1936. Recent changes to FIF legislation have:

- Exempted qualifying superannuation (pension) entities and fixed trusts from the FIF rules where all of the beneficiaries are complying superannuation entities.
- Increased the FIF balanced portfolio exemption threshold from 5 per cent to 10 per cent.
- Removed 'management of funds' from the FIF 'black list' of non-eligible business activities for the purposes of claiming a FIF exemption.

These and other changes to the tax legislation are seen by many as encouraging the growth of the Australian hedge fund industry.

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(22) IMF, *Australia: 2007 Article IV Consultation – Staff Report, Table 1.*

(23) Reserve Bank of Australia, *Financial Stability Review*, September 2004.

(24) GovernanceMetrics International, *Global Governance Rankings (23 countries)*, February 2005.

# The Australian Environment

The strength and resilience of the Australian economy has been underpinned by 16 years of uninterrupted economic expansion at a rate well above the global average. Australia is home to sophisticated financial markets and the region's largest mutual funds pool. Australia offers a highly competitive location, with a world best practice regulatory environment and a highly skilled and multilingual workforce.

## Robust and Resilient Economy

Australia's annual average real GDP growth rate from 1997 to 2007 was 3.5 per cent<sup>(25)</sup>, ahead of other developed economies such as the United States; the United Kingdom, Japan, France and Germany. Australia has also been ranked the most resilient economy in the world for five of the past six years.<sup>(26)</sup>

## Sophisticated Financial Markets and the Region's Largest Mutual Funds Pool

Australia is one of the key centres for capital markets activity in the Asia-Pacific with liquid markets in equities, debt, foreign exchange and derivatives.

Australia's investment funds have grown significantly, recently surging to over A\$1.3 trillion.<sup>(27)</sup> Total investment fund assets have increased more than five-fold since 1992, with a compound annual growth rate of 12 per cent. This impressive growth has been driven by the Australian Government's mandatory retirement income scheme and the favourable tax treatment of private pension savings. This large and rapidly growing pool of funds continues to draw global financial services firms to establish or expand their operations in Australia.

## Democratic and Politically Stable

Australia is one of the oldest and most stable democracies in the world. It was ranked the most politically stable in the world in 2006 and over the past five years it was the only country consistently ranked in the top three.<sup>(28)</sup> In addition, a survey conducted in 2007 by independent ratings agency, Governance Metrics International (GMI), ranked Australia first in the world for its corporate governance standards. This survey covered 3,220 global companies from 23 countries.

## Highly Skilled, Multilingual and Experienced Workforce

Australia has over 1.5 million people employed in the finance, insurance, real estate and business services sectors, which reflects a sizeable pool of skilled workers. International studies confirm the high level of skill, productivity and professionalism of Australia's workforce, particularly in financial services.

Australia has over 1.4 million people who speak an Asian language at home and almost 1.2 million who speak a European language at home.<sup>(29)</sup> With more than 25 per cent of its labour force born overseas, Australia is one of the most culturally diverse countries in the Asia-Pacific region.<sup>(30)</sup>

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(25) International Monetary Fund, *World Economic Outlook Database*, April 2007.

(26) Institute for Management Development, *World Competitiveness Yearbook 2007*.

(27) Australian Bureau of Statistics, cat. no 5655.0, *Managed Funds*, June 2007.

(28) Institute for Management Development, Switzerland, *World Competitiveness Yearbook 2006*.

(29) Australian Bureau of Statistics, cat. no. 2068.0, *2006 Census Tables, 2006 Census of Population and Housing*.

(30) Australian Bureau of Statistics, cat. no. 6105.0, *Australian Labour Market Statistics*, July 2007.

## Austrade

The Australian Trade Commission (Austrade) is the Australian Government's trade and investment development agency. Austrade provides advice on overseas markets, international opportunities, and Export Market Development Grants, to reduce the time, cost and risk for Australian businesses to successfully establish and grow their and international business, as well as promoting Australia's attractiveness as a destination for foreign direct investment.

Austrade operates through a global network of offices, with representatives overseas in over 110 locations in more than 60 countries. Across Australia, Austrade has 17 offices and a network more than 50 TradeStart offices.

## For further information

To learn more about what we can do to help you or to contact an investment specialist, call **13 28 78** (in Australia), email **invest@austrade.gov.au** or visit **www.austrade.gov.au/financialservices**

## Useful Links

Austrade	<a href="http://www.austrade.gov.au">www.austrade.gov.au</a>
Alternative Investment Management Association, Australian Chapter	<a href="http://www.aima-australia.org">www.aima-australia.org</a>
Association of Superannuation Funds of Australia (ASFA)	<a href="http://www.superannuation.asn.au">www.superannuation.asn.au</a>
Australian Prudential Regulation Authority	<a href="http://www.apra.gov.au">www.apra.gov.au</a>
Australian Securities and Investments Commission	<a href="http://www.asic.gov.au">www.asic.gov.au</a>
Investment and Financial Services Association (IFSA)	<a href="http://www.ifsa.com.au">www.ifsa.com.au</a>

**NOTE:**

As of 1 July 2008, the work of Invest Australia, formerly part of the Department of Innovation, Industry, Science and Research is performed by Austrade.

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