

The Hedge Funds Industry in Australia

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The Hedge Funds Industry in Australia

INTRODUCTION

Australia's US\$17 billion hedge fund industry, underpinned by Australia's globally significant investment management industry, has grown rapidly in recent years to become the largest in Asia.

Hedge fund managers in Australia control more industry assets than the rest of Asia combined. Two thirds of the country's hedge fund assets are deployed in global and regional strategies – demonstrating both the funds management expertise and the regional and global outlook characteristic of Australia's financial services industry.

The success and growth of hedge funds in Australia have also been aided by access to a highly skilled and experienced talent pool, drawn from Australia's sophisticated managed funds and investment banking community. Indicative of this capability and depth are Australia's stock market¹ and debt securities markets², which are the largest in Asia (ex-Japan), and Australia's foreign exchange market and OTC derivatives market, which are the fastest growing in the region.³

The hedge funds industry forms part of Australia's A\$908.5 billion (US\$692bn)⁴ managed funds industry that has developed in response to 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 business⁵ and Australia's contestable pension assets are set to become the largest in Asia by 2015.⁶

Traditional institutional fund managers in Australia are now directing money into hedge funds as part of portfolio diversification and an increasing number of retail wealth management organisations are tailoring products for sophisticated retail investors.

Australia's hedge funds industry has attracted and is supported by strong service providers. Their provision of risk assessment, unit pricing and operational procedures within the sound regulatory and governance framework that underpins Australia's financial services industry more generally, is an important aspect of the Australian hedge funds industry.

THE SUCCESS OF THE AUSTRALIAN HEDGE FUND INDUSTRY WAS RECOGNISED WHEN IT WON AN UNPRECEDENTED 6 OF 11 AWARDS IN THE ANNUAL 2005 ASIAHEDGE AWARDS.

"That so many Australian managed or located funds were nominated and won awards this year really puts the Australian hedge funds and absolute return invested portfolios on the international investment map... This is by far the most comprehensive and developed of alternative investment markets just about anywhere."

Paul Storey, Editor, AsiaHedge Press Release, 24 October 2005

1 Standard & Poor's, *The World by Numbers: Global Stock Market Review*, November 2005.

2 Bank for International Settlements (BIS), *International Financial Statistics*, June 2005.

3 BIS, *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in 2004*.

4 Australian Bureau of Statistics, *Managed Funds Australia*, September quarter 2005. (Exchange rate: A\$1 = .7615 US\$ as at 30 September 2005, sourced from Reserve Bank of Australia.)

5 Lodestar Favourability Indicators, *Cerulli Global Update Midyear*, 2005.

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

SIZE OF THE AUSTRALIAN HEDGE FUNDS INDUSTRY

Hedge fund managers located in Australia directly control A\$22,388 million (US\$17,098m) in assets, more than Hong Kong, Japan and Singapore put together. Australia also offers 111 hedge fund products, the highest number for any one country in Asia.

TOTAL ASSETS AND NUMBER OF FUND PRODUCTS OFFERED BY MANAGERS OF HEDGE FUNDS LOCATED IN KEY FINANCIAL CENTRES

	Assets Under Management US\$ million	Number of hedge fund products*
Australia	17,098	111
Hong Kong	8,591	98
Japan	4,583	63
Singapore	2,809	62
Sub-total	33,081	334
United States (investing in Asian markets)	24,518	104
United Kingdom (investing in Asian markets)	21,546	155
TOTAL	79,145	593

*Includes all share classes.

Sources: EurekaHedge data as at 30 June 2005. Australia data provided by LCA Publications as at 30 June 2005. Data covers hedge funds only

When Australia's fund of hedge fund sector is included, the size of the Australian hedge funds industry increases to A\$35,350 million (US\$26,997m).

TOTAL SIZE OF THE AUSTRALIAN HEDGE FUNDS INDUSTRY

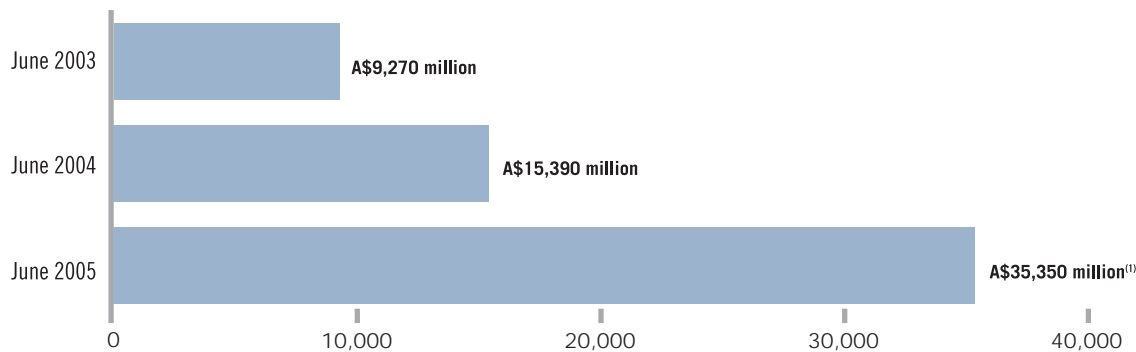
	Assets Under Management A\$ million
Hedge fund managers	22,388 (US\$17,098m)
Fund of hedge funds	12,962 (US\$9,899m)
TOTAL	35,350 (US\$26,997m)⁽¹⁾

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

Sources: LCA Publications, Basis Point Consulting as at 30 June 2005

The Australian industry is also growing at a rapid pace. Available data shows that in the two years to June 2005, assets under management by hedge fund managers and fund of hedge funds have tripled.

GROWTH OF THE AUSTRALIAN HEDGE FUNDS INDUSTRY



(1) The comparison between 2004 and 2005 is indicative only, as a different data source was used for 2005, when the previous data source became unavailable.

Sources: InvestorInfo for 2003 and 2004 data excluding structured hedge fund products. LCA Publications for 2005 data

INVESTMENT STRATEGIES

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

In terms of performance by investment mandate, the Australia/New Zealand region ranked highest in the year to October 2005, on a risk-adjusted list, indicating the best risk-return combination in Asia.⁷

INVESTMENT STRATEGIES OF AUSTRALIAN HEDGE FUND MANAGERS

	Strategies	Assets Under Management A\$ million	Number of funds
1	Global Fixed Income	1,062	9
2	Global Managed Futures	23	4
3	Global Macro	3,290	19
4	Japan Long Short & Absolute	1,070	6
5	Global Long Short and Absolute	7,522	14
6	Asia Long Short and Absolute	1,854	4
	Sub total Global and Asian strategies (66%)	14,821	
7	Australia Event Driven	219	6
8	Australia Long Short and Absolute	6,261	37
9	Australia Market Neutral	1,087	12
	GRAND TOTAL (100%)	22,388 (US\$17,098m)	111

Source: LCA Publications as at 30 June 2005

⁷ EurekaHedge, Key Trends in Asian Hedge Funds, October 2005.

There are 55 hedge fund managers in Australia offering the 111 funds that cover 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, as indicated by the top 10 hedge fund managers sourced from LCA Publications as at 30 June 2005.

TOP 10 HEDGE FUND MANAGERS IN AUSTRALIA

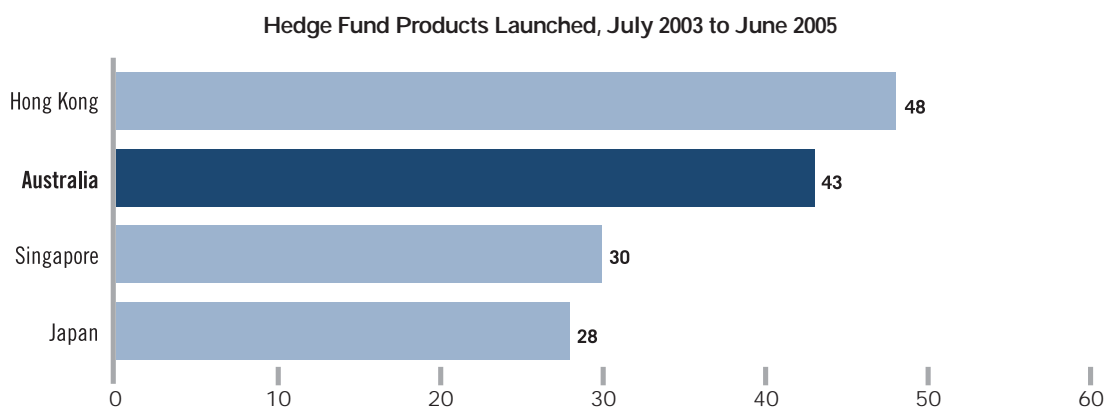
	Fund Manager	Assets Under Management A\$ million	Strategy
1	Platinum Asset Management	7,332	Global and Asian long/short
2	PM Capital	3,031	Global and Australian long/short
3	Barclays Global (Australia)	1,823	Equity long/short, macro
4	Grinham Managed Funds	1,712	Macro, futures
5	Portfolio Partners	853	Australian long/short
6	WestLB Asset Management (Australia)	780	Long/short
7	Artesian Capital Management	730	Credit arbitrage/multi-strategy
8	Basis Capital Funds Management	589	Global and regional relative value and arbitrage fixed income
9	Optimal	486	Long/short
10	K2 Asset Management	376	Long/short
	Sub total	17,712	
11-55	All other managers	4,676	
	GRAND TOTAL	22,388 (US\$17,098m)	

Source: LCA Publications as at 30 June 2005

GROWTH ENVIRONMENT

There were 43 new hedge fund products launched in Australia between June 2003 and June 2005, well ahead of the 30 in Singapore and 28 in Japan and just behind the 48 launched in Hong Kong.

NUMBER OF HEDGE FUND PRODUCTS LAUNCHED



Source: EurekaHedge data as at 30 June 2005

This rapid growth has spurred the development of Australian hedge fund and boutique fund incubators that offer seed capital in addition to start-up management and administrative services. There are seven such incubators in Australia.

AUSTRALIAN HEDGE FUND AND 'BOUTIQUE FUND' INCUBATORS

■ Ascalon Capital Managers*	■ Macquarie Bank	■ Saltbush	■ Treasury Group*
■ Challenger Financial Services*	■ Pengana Managers	■ Tricom	

*Focusing on 'boutique funds' which are typically absolute return long-only funds.

Source: Basis Point Consulting

Hedge fund launches in Australia have been aided by the low start up and annual running costs. Australia has the lowest annual recurring costs among 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
Australia	81,000 to 195,000	162,000 to 340,000
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

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\$12,962 million (US\$9,899m) in assets and is regarded anecdotally as Asia's largest.

TOP 10 FUND OF HEDGE FUND ENTITIES IN AUSTRALIA

Entity	Assets Under Management A\$ million
1 Man Investments Australia*	4,540
2 Warakirri	1,211
3 Everest Capital	1,200
4 UBS GAM	960
5 FRM	760
6 GMO Australia	686
7 HFA Asset Management	630
8 Colonial First State	560
9 Barclays Global Investors	558
10 AMP	444
Sub Total	11,549
11-18 Other	1,413
GRAND TOTAL	12,962 (US\$9,899m)

* Basis Point Consulting as at 30 June 2005 – Man Investments offers structured fund of hedge fund products.

Source: LCA Publications as at 30 June 2005

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 fund assets are the fourth largest in the world.⁸ Funds under management in Australia reached A\$908.5 billion (US\$692bn) in the September quarter of 2005.⁹

AUSTRALIAN PENSION FUND INVESTORS

Australia's contestable pension fund market is the largest in Asia (ex-Japan), with US\$528 billion under management in 2004. It is projected to reach US\$1.9 trillion by 2015, overtaking Japan's contestable pension fund market. This is shown in the table below. In Australia, there is no real distinction between 'public' and 'private' pension funds, as all pension funds are contestable. The table below may not include (public) government monies elsewhere in Asia which may be outsourced to private pension schemes.

PENSION ASSETS UNDER MANAGEMENT IN ASIA – US\$ BILLION

Country	2004	2015
Australia	527.5	1,908.7
Japan	761.1	896.6
Singapore	68.8	123.9
Hong Kong	39.6	112.0
South Korea	31.4	275.0
Taiwan	2.7	98.5

Source: Allianz Global Investors, *Asia-Pacific Pensions, Reform Trends and Growth Opportunities* June 2005

HIGH-NET-WORTH INDIVIDUALS

Australia has 281,298 'self-managed' pension funds, each with an average A\$248,200¹⁰ (US\$189,550) in assets, (worth a total of US\$53.3bn) that are typically established by high-net-worth and 'mass affluent' individuals as their private pension fund, where they take responsibility for asset allocation decisions. Among the four 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 ⁽¹⁾
Japan	1,334,000
Australia	134,000
Hong Kong	67,000
Singapore	49,000
Comparisons	
United States	2,498,000
United Kingdom	418,000

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

Source: 2005 World Wealth Report produced by Merrill Lynch and CapGemini

⁸ Investment Company Institute, *Worldwide Mutual Assets and Flows*, September quarter 2005. 'Investment Fund' refers to publicly offered, open-end fund investing in transferable securities and money market funds.

⁹ Australian Bureau of Statistics, *Managed Funds Australia*, September quarter 2005. (Exchange rate: A\$1 = .7615 US\$ as at 30 September 2005, sourced from Reserve Bank of Australia.)

¹⁰ Australian Prudential Regulatory Authority, *Annual Superannuation Bulletin*, June 2004.

RETAIL INVESTORS

Australian total household wealth (combining retail and high-net-worth individuals) is more than triple that of Singapore and more than double that of Hong Kong. In addition, wealth in Australia grew roughly three times faster than both Hong Kong and Singapore in 2003-04.

TOTAL WEALTH OF HOUSEHOLDS AND PERCENT GROWTH – 2003-04

Country	Assets US\$ billion	Per cent growth 2003-04
Australia	1,169	17.8
Hong Kong	465	5.2
Singapore	291	6.2

Source: The Boston Consulting Group, *Wealth Market Sizing Database 2005*

Australia has one of the world's highest percentages of individuals with direct and indirect (via managed funds) investments in the stock market.¹¹ Australia also has an active retail market in futures, margin FX, contracts for differences, warrants and exchange traded options.

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	% allocation
Australian high-net-worth and retail	65
Australian pension funds	20
Offshore institutional investors	15
TOTAL	100

Source: LCA Publications. Estimates as at 30 June 2005

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 and third largest fund of hedge funds, accounting for A\$5,740 million (US\$4,384m) in assets, each sources almost all its monies from high-net-worth individuals and retail investors. In comparison, as at 31 March 2005, the total asset size of Hong Kong's retail hedge fund market was approximately US\$1,200 million.¹²

¹¹ Australian Stock Exchange, *2004 Australian Share Ownership Study*, 24 February 2005.

¹² Hong Kong Securities and Futures Commission [SFC] *Consultation on a Review of Hedge Fund Guidelines*, 26 May 2005 – estimates of total net asset size of SFC authorised hedge funds.

To address the demand from high-net-worth individuals and retail investors for hedge fund products, sophisticated distribution and product structuring expertise has been developed to offer a wide range of alternative investments including capital guaranteed hedge fund products, fund of hedge funds and structured notes.

In addition, the Australian Stock Exchange offers a Listed Managed Investment (LMI) program that by the end of 2005 will have garnered more than A\$700 million (US\$535m) from predominantly retail investors into nine listed hedge fund and absolute return funds.¹³

PENSION FUND INVESTORS IN HEDGE FUNDS

Australian pension fund investors have also been increasing their allocation to hedge funds over the past four years, climbing from 3 per cent in 2001 to 32 per cent of institutions 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 described as large endowments, foundations and pension plans.

Source: 2005-2006 Russell Survey on Alternative Investing, Russell Investment Group. No survey data specifically on Asia was published

At least A\$3,778 million (US\$2,885m) have been 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 A\$ million
JANA Investment Advisers	1,943.4
Watson Wyatt	637.5
Frontier Investment Consulting	457.0
Mercer IC	427.8
Towers Perrin	156.0
IPAC Asset Management	85.0
Russell	39.2
Aon Consulting	34.0
Total	3,778 (US\$2,885m)

Source: InvestorSupermarket. Cumulative allocations in 2003, 2004 and to 30 June 2005

Note: Towers Perrin is showing separate to Russell. Russell Investment Group announced on 31 August 2004 that it had acquired Towers Perrin [Australia].

¹³ Australian Stock Exchange, *Listed Managed Investment Monthly Update*, October 2005; Basis Point Consulting.

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\$3,729.4 million (US\$2,899.5m).

TEN LARGEST SUPERANNUATION FUND ALLOCATIONS TO HEDGE FUND/FUND OF HEDGE FUNDS

Super Fund	Total Allocated A\$ million	Managers
CSS/PSS*	1,482	BGI Australia Ltd, Bridgewater Associates Inc, Financial Risk Management Ltd, GMO Australia Ltd, Harris Alternatives LLC, Mesirow Advanced Strategies Inc, Templeton Capital Advisors Ltd
UniSuper	564	GMO, SSgA, WestAM
REST*	505.4	GMO, Warakirri Asset Management, Holowesko Global Fund
Health Super	267	FRM Investment Management, UBS Global Asset Management
Telstra SS	210	Barclays Global Investors, BT Financial Group, Colonial First State Investments, State Street Global Advisors, UBS Global Asset Management
Qantas SP	200	BT Financial Group, UBS Global Asset Management
HESTA*	241	FRM Investment Management, Quellos Group
Local Super SA-NT	106	Barclays Global Investors, Holowesko Global Fund, GMO, State Street Global Advisors, WestAM
QLGSS	100	BT Financial Group, UBS Global Asset Management
Print Super*	54	BT Financial Group, FRM Investment Management
TOTAL	3,729.4 (US\$2,899.5)⁽¹⁾	

(1) US\$ amount derived by using exchange rate corresponding to month of figure, sourced from the Reserve Bank of Australia.

Sources: *Advised by fund, as at 30 December 2004, except for Print Super which is at December 2005; All other data from InvestorSupermarket, as at 30 December 2004, except for Hesta which is at 30 June 2005



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 HSBC and Fortis Prime Fund Solutions currently market to Australia's hedge funds community from offshore.

PRIME BROKERS

Prime brokers with substantial Australian based teams include Merrill Lynch, Fortis Clearing and UBS. Other firms marketing brokerage services either from local or offshore teams include ABN AMRO, AIG*, ANZ Investment Bank, Deutsche Bank*, Calyon Financial Group, CIBC Oppenheimer*, Citigroup Global Markets Australia, Daiwa Securities SMBC Australia, Fimat, Goldman Sachs JBWere, HSBC, ING Wholesale Banking, Lehman Brothers, Macquarie Bank*, Man Financial Australia, Morgan Stanley, National Australia Bank*, SG CIB, and Tricom.*¹⁴

OTHER PROVIDERS

Structured credit providers have sought out Australian hedge fund business. These providers include Bear Stearns & Co, BNP Paribas Securities Services, Credit Suisse First Boston, Dresdner Kleinwort Wasserstein Singapore, JP Morgan, Lehman Brothers Asia, Merrill Lynch, Nomura Australia, Royal Bank of Scotland, Wachovia Securities, and Westpac Institutional Bank.¹⁵

Legal providers include Henry Davis York, Phillips Fox, Blake Dawson Waldron, Mallesons Stephen Jacques, and Walkers (offshore servicing).¹⁶

Global hedge fund research and advisory firms with major Australian fund of hedge fund clients include Federal Street Advisors, Gottex Fund Management, Grosvenor Capital Management, Harcourt Investment Consulting and Lighthouse Partners.¹⁷ Others include Mesirow Financial, and Greenwich - Van.¹⁸

Macquarie University, in conjunction with fund of hedge fund manager, Colonial First State, offers a specialist post-graduate 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, Assirt, InvestorWeb, Lonsec, van Eyk Research and Zenith Investment Partners.¹⁹

¹⁴ List compiled from the Cure Our Kids Asia-Pacific Hedge Fund and Alternatives Directory 2005 produced with the support of the Alternative Investment Management Association Australian Chapter. *Not in directory.

¹⁵ Ibid.

¹⁶ Ibid. Also includes 2004 directory.

¹⁷ van Eyk, *Hedge Fund of Funds Sector Overview*, November 2005.

¹⁸ Via an Australian joint venture Van MacDonald.

¹⁹ Basis Point Consulting research.

Regulation of the Hedge Funds Industry

"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 which 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."²⁰

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 by many 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.²¹

RECENT TAXATION CHANGES

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; and
- 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.

²⁰ Reserve Bank of Australia, *Financial Stability Review*, September 2004.

²¹ GovernanceMetrics International, *Global Governance Rankings (23 countries)*, February 2005.



The Australian Environment

The strength and resilience of the Australian economy have underpinned fourteen years of uninterrupted economic expansion at a rate well above the global average. Australia offers a highly competitive location with an open, transparent, world-best practice regulatory environment, a highly skilled and multilingual workforce, and advanced business infrastructure.

ROBUST DOMESTIC ECONOMY: Australia's average annual GDP growth rate from 1998 to 2005 was 3.5 per cent, well above the rate of world growth and ahead of other developed economies including the USA, Japan, Germany and the UK.²² Australia has also been ranked the most resilient economy in the world for the fourth successive year.²³

STRONG PRODUCTIVITY GROWTH: Benchmarked against other OECD nations, Australia's productivity has shown strong and consistent growth. Over an eight year period to 2003, Australia's annual average growth of 2.6 per cent, (measured by GDP per hour worked) was greater than that of major developed nations including the USA, UK, Japan, Canada and Germany.²⁴

SOPHISTICATED FINANCIAL MARKETS AND LARGE 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 pool of managed funds is forecast to grow to over US\$1.5 trillion by 2015.²⁵

ADVANCED INFORMATION AND TECHNOLOGY ENVIRONMENT: Australia is renowned for its rapid adoption of new technologies. It leads the region in the use of the Internet as a platform for the delivery of financial services and its e-readiness is among the best globally.²⁶

PROTECTION OF IP: Australia is recognised as having one of the most effective and modern intellectual property rights regimes in the world, strongly influenced by and consistent with World Intellectual Property Organisation conventions. In terms of patent and copyright enforcement, Australia's regime is ranked well above countries such as the UK, France, Italy, Japan, Korea, Hong Kong and Taiwan.²⁷

R&D: Australia is ranked as one of the top six developed economies, and second only to Japan in the Asia-Pacific region, in generating basic research to ensure long term economic development.²⁸ Although Australia has 0.3 per cent of the world's population, it produces 3 per cent of the world's medical research. Australia is also ranked ninth, ahead of Singapore, Japan, France and Canada, for the quality of its scientific research institutions.²⁹

SKILLED AND MULTILINGUAL WORKFORCE: Australia's primary advantage as a regional centre is the availability of a sizeable pool of skilled personnel. A further advantage is that over 850,000 Australians are fluent in one of the major Asian languages.

DEMOCRATIC AND POLITICALLY STABLE: Australia is one of the oldest and most stable democracies in the world, and is ranked as having the second lowest risk of political instability.³⁰ Australia's political and legal institutions are recognised globally for their reliability and impartiality.³¹

HIGH LEVELS OF TRANSPARENCY AND CORPORATE GOVERNANCE: Australia's legal framework was ranked third in the world its financial institutions' transparency second, in 2005.³² In addition, a recent survey conducted by independent ratings agency, GovernanceMetrics International (GMI), ranked Australia fourth in the world for its corporate governance standards. This survey covered 3,220 global companies from 23 countries.

²² International Monetary Fund, World Economic Outlook Database, September 2005.

²³ *World Competitiveness Yearbook (WCY) 2005*.

²⁴ OECD Productivity Database 2005.

²⁵ ASSIRT Research Estimates, June 2005 (based on long term average exchange rate of US\$0.70).

²⁶ Economist Intelligence Unit, *2005 E-Readiness Rankings*.

²⁷ WCY 2005.

²⁸ WCY 2005.

²⁹ World Economic Forum *Global Competitiveness Report 2004-05*.

³⁰ Australia is ranked 4th in the world for transparent government policy and 5th for corruption not existing in the economy, WCY 2005.

³¹ WCY 2005.

³² WCY 2005.

Axiss Australia

Axiss Australia is the financial services division of Invest Australia, the Australian Government's inward investment agency. Axiss assists financial services institutions to establish and expand their activities in Australia.

Axiss produces newsletters, fact sheets, international data comparisons and reports on the Australian financial markets and business environment.

Axiss Australia's annual Benchmark Report provides key data and regional and global comparisons showing Australia's strengths as a global financial services centre.

Other information provided by Axiss includes Executive Briefings and Data Files on specific sectors within the financial services industry and its workforce and education in Australia.

All publications, research and charts can be accessed on www.axiss.gov.au and the website contains general information about the regulatory and business environment for financial services in Australia.

Useful Links

AusIndustry	www.ausindustry.gov.au
Australian Tax Office	www.ato.gov.au
Alternative Investment Management Association (AIMA)	www.aima.org
Australian Lending Securities Association (ASLA)	www.asla.com.au
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DISCLAIMER

This report has been prepared as a general overview. It is not intended to provide an exhaustive coverage of the topic. The information is made available on the understanding that neither Axiss Australia, Basis Point Consulting nor the Australian Government is providing professional advice. Therefore, while all care has been taken in the preparation of this report, Axiss Australia, the Australian Government and others who assisted in its preparation do not accept responsibility for any losses suffered by persons relying on the information contained in this report or arising from any error or omission in the report.



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