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### **Giving Taiwan Investors a DAM**

Finally, a bit of good news for Taiwan's battered stock markets.

Funds from discretionary accounts should start to pour into the markets by the end of the year following the legalization of the Discretionary Account Management (DAM) industry this summer. And with estimates of the total size of the market ranging from NT\$1 trillion to NT\$4 trillion, firms are rushing to enter the market.

What is DAM?

They are accounts where investors give other persons the authority to buy and sell securities, either absolutely or subject to certain restrictions. In other words, DAM sets up a trust relationship under which professional fund managers have the ability to tailor investment accounts and make investment decisions for the client through segregated accounts.

In the past, investment decisions remained with the investor in the case of individual accounts. Thus, each transaction decision had to be confirmed or made by the investors. If investors wanted to turn the decision-making over to a professional, the only choice they had was mutual funds. But by their character of serving a large group of people, mutual funds could not be tailored to meet the needs of individual investors.

With discretionary accounts long part of European and North American investing, why did the industry take so long to reach Taiwan? After all, there is no shortage of money on the island searching for investment opportunities.

The legal authority for DAM was stalled in the Legislative Yuan since 1992, part of a package of amendments to the Securities Exchange Law. The logjam was finally broken on the final day of the last legislative session on June 30, 2000 as the government looked for ways to boost the sagging market by increasing institutional investment in Taiwan. The government had listed the amendments as a major item for passage under the Asia-Pacific Regional Operations Center plan.

Securities Investment Trust Enterprises (SITs) and Securities Investment Consulting Enterprises (SICES) may apply for approval to offer DAM services. Banks and trust enterprises may also apply if they establish SICES.

Through Nov. 4, a total of 31 firms have applied for approval, including ABN AMRO and Jardine Fleming Taiwan Investment Management. More than 70 firms are expected to apply.

The minimum amount to open a discretionary account is NT\$10 million. Not all of the amounts invested will be new funds as holdings in existing accounts may be transferred to open a discretionary account. For high net-worth individuals, DAM creates a new method of investing in Taiwan and a level of personal service than many have become accustomed through overseas private banking services.

While the opportunity to offer accounts to these individuals has captured the headlines, the focus of the fund managers is on the institutional market. In the near term, the biggest opportunities are four large government-run funds: Civil Servant Pension Fund, Labor Retirement Fund, Labor Insurance Fund, and Postal Saving Deposits. The management committee of the Civil Servant Pension Fund has already approved entrusting up to 30 percent of the fund to private asset management companies for its pension fund for approximately 600,000 government employees. Based on the fund's current value of NT\$160 billion, it can turn over NT\$48 billion to private fund managers starting in January 2000. The number of fund managers and the allocation to each has yet to be decided.

The three other large government-run funds are likely to follow suit with allocations to outside managers. The Labor Retirement Fund with NT\$208.1 billion and the Labor Insurance Fund with NT\$462.4 billion may also allocate 30% to outside managers. The Postal Saving Deposits has NT\$300.0 billion which may be made available to for allocation to outside managers.

The creation of DAM will likely result in institutional investors shifting out of mutual funds, thereby leaving mutual funds for who they were intended for—the individual investor. As a result, with less volatility, the mutual funds should become more stable and fund management more efficient.

As for the discretionary accounts, not all is left to the discretion of the fund managers.

For example, all investments must remain in Taiwan. Thus, managers may not invest abroad, a restriction that limits the ability to diversify—a significant factor considering the size of many of the accounts. Another restriction is that fund managers may not invest on margin, engage in short selling, or invest in futures—measures intended to limit the risk of the accounts. Other restrictions are that no more than 20% of a single account may be invested in a single company, and the total of all the discretionary accounts of a single fund manager may not comprise more than 10% of the total issued shares of a company.

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