

# FEATURE ARTICLE

## INVESTMENT MANAGERS

### INTRODUCTION

This article updates statistics on the structure of the wholesale investment management market. These were previously published in the June quarters 1996, 1997, 1998 and 1999 releases of this publication. The Reserve Bank and ABS collaborated on cross-classificatory attributes of investment managers, namely group ownership and main financial activity of group. These cross-classifications have been applied to the data collected from investment managers in the ABS quarterly Survey of Financial Information (SFI), the results of which are presented in Table 8, Investment Managers, Source of Funds in this publication.

To facilitate the analysis of the wholesale investment management market, the sources of funds have been grouped into *retail* and *other*. In addition, some market concentration analysis has also been undertaken. The time series for total funds under management by group ownership and main financial activity is also presented to show growth and changes in the structure of the market over the previous two years.

The data sources and methodology (including the classification standards) are presented at the end of the article.

In principle, the analysis could be extended to cover retail investment managers. In practice, retail investment managers utilise the services of wholesale investment managers for approximately 75% of their investments. Moreover, the task of collecting the ownership and control characteristics of the relatively large number of retail institutions is constrained by both the reporting load that would be imposed on survey respondents, and the ABS costs in collecting and processing the information.

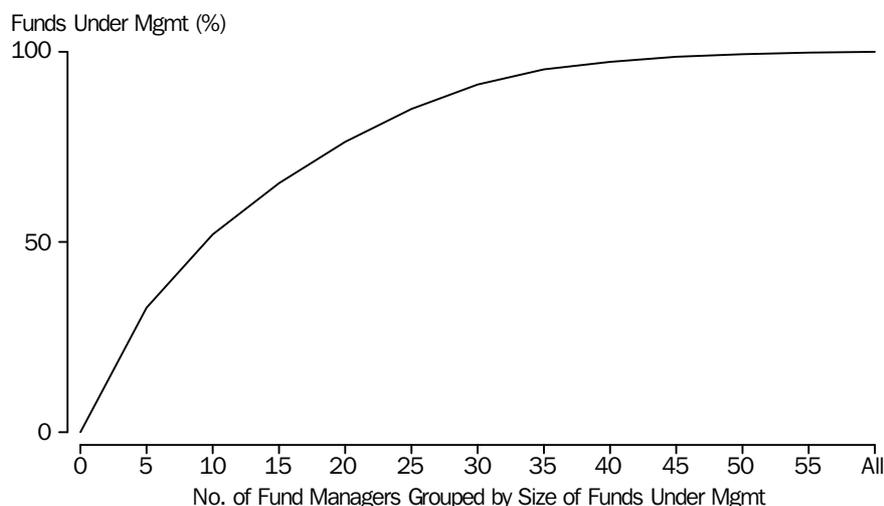
### ANALYSES OF RESULTS

The following table shows the amount of funds under management with investment managers as at 30 June 2000, classified according to their group ownership and main financial activity characteristics.

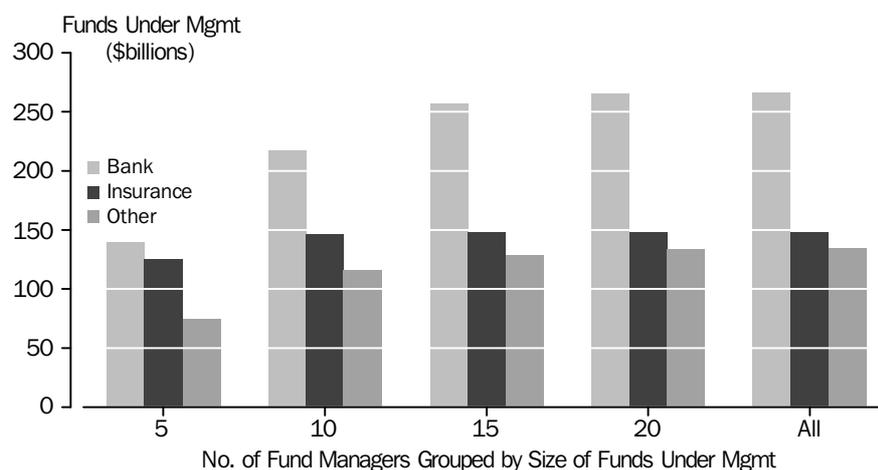
### FUNDS UNDER MANAGEMENT BY SOURCE, MANAGER OWNERSHIP AND TYPE OF FINANCIAL GROUP AS AT 30 JUNE 2000

Funds under management by	SOURCED FROM RETAIL FUNDS.....		OTHER SOURCES.....		TOTAL.....	
	\$ billion	% share of retail funds	\$ billion	% share of funds from other sources	\$ billion	% share of funds under management
<b>Ownership</b>						
Private domestic	236.0	54	49.9	46	285.9	52
Mutual societies & cooperatives	4.3	1	7.5	7	11.8	2
Other	231.7	53	42.4	39	274.1	50
Private foreign	203.9	46	59.2	54	263.0	48
<b>Total</b>	<b>439.8</b>	<b>100</b>	<b>109.1</b>	<b>100</b>	<b>548.9</b>	<b>100</b>
<b>Main financial activity</b>						
Bank	209.4	48	56.6	52	266.0	48
Insurance	124.2	28	24.2	22	148.4	27
Other	106.3	24	28.2	26	134.4	25
<b>Total</b>	<b>439.8</b>	<b>100</b>	<b>109.1</b>	<b>100</b>	<b>548.9</b>	<b>100</b>

- SOURCE OF FUNDS** Funds to the value of \$548.9 billion were invested through wholesale investment managers at 30 June 2000. These funds were sourced predominantly (80%) from retail managed funds, with 20% from other sources. A finer dissection of funds under management, by source, is provided in Table 8 of this publication.
- OWNERSHIP** At 30 June 2000, 52% of wholesale funds were under management by private domestic financial enterprise groups and 48% were under management by private foreign financial enterprise groups.
- MAIN FINANCIAL ACTIVITY** Investment managers associated with banks and insurance companies dominate the wholesale funds management market, accounting for 48% and 28% respectively of the market at 30 June 2000, leaving 24% under management by other types of financial groups.
- MARKET CONCENTRATION** The following graphs are derived by firstly ranking investment managers according to size of funds under management and then assigning each investment manager to a cumulative size grouping. For example, on the horizontal axis, the number 10 represents the 10 investment managers with most funds under management; the number 20 refers to the funds under management accounted for by the largest 20 investment managers, and so on.
- The graph below shows that the 10 investment managers with most funds under management accounted for 52% (\$286.1 billion) of the total investment management market. The remaining investment managers accounted for 48% of the total investment management market. Ninety per cent of the funds under management are managed by the 29 largest investment managers.



**MARKET CONCENTRATION** The graph below shows that the five largest investment managers in insurance groups accounted for \$125.1 billion (84% of funds under management by insurance groups), that the five largest investment managers in banking groups accounted for \$139.3 billion (52% of funds under management by bank groups) and that the five largest investment managers in the other group accounted for \$74.5 billion (55% of funds under management by the other group).



**FUNDS UNDER MANAGEMENT  
TIME SERIES**

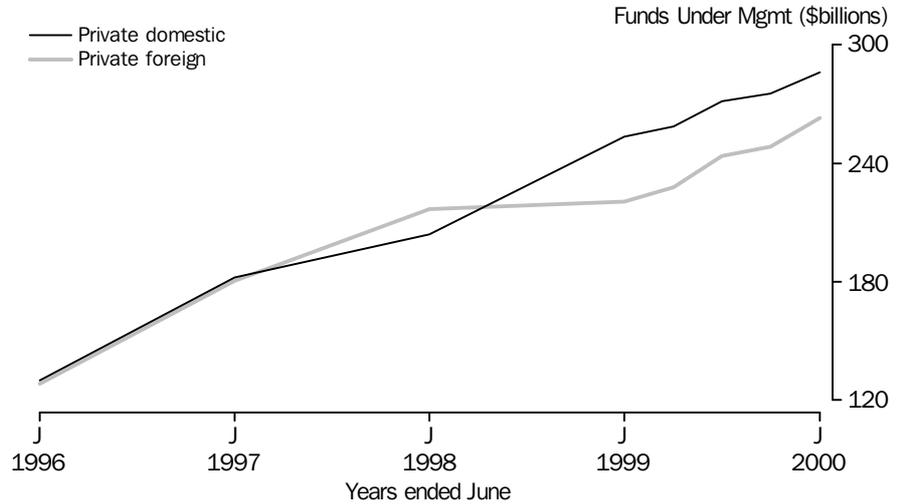
The following table shows that between 30 June 1996 and 30 June 2000, the wholesale investment management industry grew by 95% (\$268 billion). Note that comparisons over time of funds under management by the different investment manager groupings may be affected by structural changes (such as mergers, takeovers, privatisations and demutualisations) as well as changes in the level of business activity. The demutualisation of AMP Society in the March quarter 1998 resulted in significant changes to the ownership categories mutual societies and cooperatives and 'other'.

**TOTAL FUNDS UNDER MANAGEMENT BY OWNERSHIP AND TYPE OF FINANCIAL GROUP**

	June 96	June 97	June 98	Jun 99	Sep 99	Dec 99	Mar 00	Jun 00
<i>Investment manager</i>	<i>\$ billion</i>							
<b>Ownership</b>								
Public	22.4	—	—	—	—	—	—	—
Private domestic	130.2	182.0	204.0	253.7	258.8	271.6	275.5	285.9
Mutual societies and cooperatives	58.8	57.8	9.4	10.1	9.8	10.7	11.5	11.8
Other	71.5	124.2	194.6	243.6	248.9	260.8	264.0	274.1
Private foreign	128.4	180.4	216.8	220.6	227.9	243.8	248.3	263.0
<b>Total</b>	<b>281.0</b>	<b>362.4</b>	<b>420.8</b>	<b>474.3</b>	<b>486.7</b>	<b>515.4</b>	<b>523.8</b>	<b>548.9</b>
<b>Main financial activity</b>								
Bank	120.3	191.3	221.1	232.8	239.5	251.6	252.7	266.0
Insurance	105.8	124.0	141.2	133.6	135.7	143.6	144.5	148.4
Other	55.0	47.1	58.5	108.0	111.5	120.2	126.6	134.4
<b>Total</b>	<b>281.0</b>	<b>362.4</b>	<b>420.8</b>	<b>474.3</b>	<b>486.7</b>	<b>515.4</b>	<b>523.8</b>	<b>548.9</b>

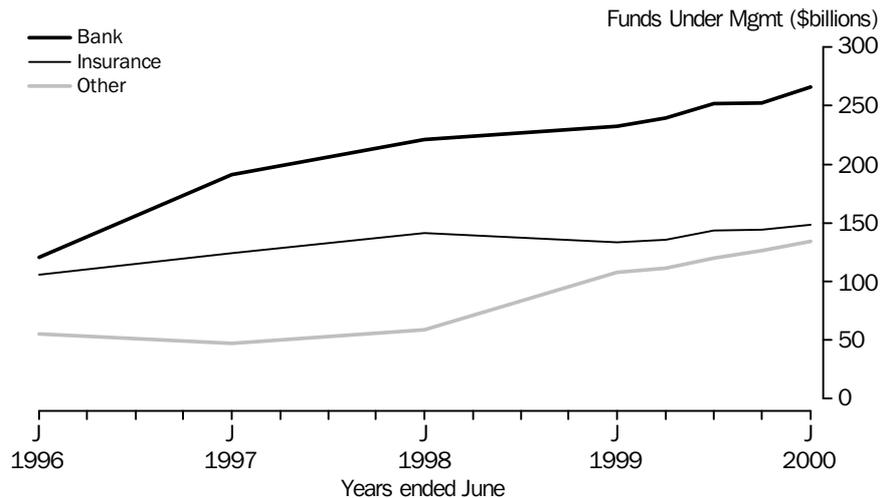
FUNDS UNDER MANAGEMENT  
BY OWNERSHIP

The graph below shows the change between June 1996 and June 2000 to funds under management according to the ownership characteristics of groups with funds under management. Since the June quarter 1997 up until the December quarter 1998, foreign owned investment managers held marginally more funds under management than privately owned domestic investment managers. Since the March quarter 1999 the position has been reversed.



FUNDS UNDER MANAGEMENT  
BY FINANCIAL ACTIVITY

The graph below shows the change between June 1996 and June 2000 to funds under management according to main financial activity of groups with funds under management. During this period funds managed by banking groups increased by \$145.7 billion (121%), funds managed by insurance groups increased by \$42.6 billion (40%) and funds managed by other groups increased by \$79.4 billion (144%).



## DATA SOURCES

**COLLECTION SCOPE** The results presented in this report are derived from the investment manager collection which forms part of the ABS Survey of Financial Information. Conceptually, this collection includes all significant investment managers operating within Australia; in practice this covers wholesale investment managers with funds under management of \$50 million or more. As at 30 June 2000 there were 59 investment managers in the survey. (The Glossary contains a more comprehensive description of the roles and functions of investment managers.)

**DATA DEFINITION** The investment manager survey collects data on the sources of funds managed by an 'investment management group' (a group being defined as entities related under the *Corporations Act 1989*). The results presented include both the total funds under management and total retail funds under management as at 30 June 2000. *Retail* funds offer individuals the opportunity to pool their investment with a large number of other individuals to produce a better return than would otherwise be available. Types of funds included in this group are noted below under *Sources of Funds*. *Other* funds primarily consist of wholesale funds from institutional investors.

The statistics present investment manager data cross-classified according to *public* or *private ownership* and *main financial activity*. The private ownership category is sub-divided into the categories *private domestic* and *private foreign*; private domestic is further sub-divided into the two categories *mutual societies and cooperatives* and *other*. ABS confidentiality restrictions prevent a more detailed presentation of the data than that presented in the table of results.

## METHODOLOGY

The criteria used for classifying the financial groups are detailed below. However, in a few cases lack of comprehensive data on ownership and type of activity of financial enterprise groups means that subjective judgements have to be made in assigning categories.

In classifying enterprise groups, all non-financial enterprises are excluded from the group structure. Their inclusion would have increased the complexity of the process and would probably have reduced the usefulness of the statistics for analytical purposes.

**OWNERSHIP CLASSIFICATION** The procedure for classifying groups to the ownership categories *public*, *private domestic*, and *private foreign* is based on the ownership characteristics of the parent company within a group. This entails identifying the ultimate holding company for each group and examining the ownership linkages. In a small number of cases some subjective judgements are required. Generally, ownership categories are assigned on the basis of the owning entity having greater than 50% share ownership, or equivalent, in the investment manager entity.

The classification criteria adopted is based on the System of National Accounts 1993 and employs the concept of control. Control over an enterprise is defined as the ability to determine general corporate policy, by choosing appropriate directors if necessary.

*Public enterprises* are resident enterprises that are subject to control by government units. The government may secure control over an enterprise:

- by owning more than half the voting shares or otherwise controlling more than half the shareholders' voting power; or
- as a result of special legislation, decree or regulation which empowers the government to determine the corporate policy or to appoint directors.

OWNERSHIP CLASSIFICATION <i>continued</i>	<p>To control more than half the shareholders' voting power, a government unit need not own any of the voting shares itself. A public enterprise could be a subsidiary of another public enterprise in which the government owns a majority of the voting shares.</p> <p><i>Private Domestic enterprises</i> include all resident enterprises that are not controlled by government or by non-resident institutional units. Such enterprises may, or may not, be controlled by other resident institutional units. They are simply characterised by the fact that they are not subject to control by the government or from abroad.</p> <p>This category is further sub-divided into two sub-categories - <i>mutual societies and cooperatives</i> and <i>other</i>. The former recognises that ownership may be attributable to policy holders or society members; ownership based on share equity or equivalent is included in <i>other</i>.</p> <p><i>Private foreign enterprises</i> consist of all resident enterprises that are controlled by non-resident institutional units. The subsector includes:</p> <ul style="list-style-type: none"> <li>▪ all subsidiaries of non-resident enterprises (but not associates of non-resident enterprises);</li> <li>▪ all enterprises controlled by a non-resident institutional unit, such as a foreign government that is not itself an enterprise. It also includes enterprises controlled by a group of non-resident units acting in concert; and</li> <li>▪ all branches or other unincorporated agencies of non-resident corporate or unincorporated enterprises that are engaged in significant amounts of production on the economic territory on a long term basis and that are, therefore, treated as resident quasi-corporations. Quasi-corporations in this context include unincorporated branches of foreign banks.</li> </ul>
MAIN FINANCIAL ACTIVITY CLASSIFICATION	<p>The <i>main financial activity</i> classification is based on the financial activity of the largest institution in the financial enterprise group. A major criterion in assigning main financial activity is the presence of a bank or life insurance company within the group. This criterion is based on investigations which showed that banks and life insurance offices are in general the largest entities within groups. Where both types of institutions are present within a group then whichever institution has more assets determines the activity category for the group. Financial enterprise groups with neither a bank nor life insurance office within the group are classified to the <i>other</i> category.</p> <p>Multiple entities of the same type (i.e. two banks) within a group are merged for comparison with the other types of financial sector entities.</p>
CHANGES IN CLASSIFICATION	<p>Changes in classification can cause significant movements in the data. These changes can occur as a result of demutualisations, privatisations, new company floats, takeovers and mergers.</p>
SOURCES OF FUNDS	<p>The data presented are the sources of funds for wholesale investment managers as detailed in Table 8 of this publication.</p> <p><i>Retail</i> figures indicate the value of assets of retail managed funds invested through the wholesale investment managers. Retail managed funds include:</p> <ul style="list-style-type: none"> <li>▪ life insurance offices;</li> <li>▪ superannuation funds;</li> <li>▪ public unit trusts;</li> <li>▪ friendly societies;</li> <li>▪ common funds; and</li> <li>▪ cash management trusts.</li> </ul>

SOURCES OF FUNDS *Other* sources of funds invested through wholesale investment managers are from:  
*continued*

- overseas;
- government;
- general insurance;
- charities;
- other trusts; and
- other.

FURTHER INFORMATION

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