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Q4 2010

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Malta Funds Industry Association

Chairman's Note

Malta's Fund Industry in 2010
- General Market Observations

Over 2010, Malta's Fund Industry has yet again witnessed sustained growth momentum with sentiment high for continued growth. This markedly contrasts with the recurring economic turmoil prevailing in number of EU countries and the inherent increasing scrutiny from regulators and institutional investors. The figures prevailing as at the 31st December 2010 will be shortly issued by the Malta Financial Services Authority, but based on the numbers as detailed in the six monthly report issued by the Authority for the six months to June 2010, this year will yet again be deemed as a successful one for the industry. This has been characterised by the setting up of new funds under existing schemes, the setting up of new schemes in Malta as well as the incidence of the redomiciliation of Schemes and their sub-funds to Malta previously domiciled in various non EU jurisdictions.

Equally important is the increasing incidence of new asset management and fund administration service providers in Malta which is further strengthening the formation of a cluster, which is truly a highly encouranging development. Conversely, it was disappointing to note that the same degree of success was not evidenced insofar as custody/primebrokerage services providers are concerned. This is in my view the missing pillar underpinning the holistic growth of the funds industry but I am of the firm conviction that the industry will soon start to experience the presence of such operators in Malta as the business continues to reach new heights.

Within the context of the above developments, it is interesting to note that according to a very recent report issued by the European Fund and Asset Management Association (EFAMA), the combined assets of the investment fund market in Europe, i.e. the market for UCITS and non-UCITS, recorded strong growth of 3.1 percent in the third quarter to reach ¤ 7,728 billion at the end September 2010. Total assets are up 9.5 percent over the first nine months of 2010.

It has become increasingly evident that many European institutional investors, both those who redeemed money from hedge funds in 2008-09 and those examining the hedge fund option for the first time, are expressing a distinct preference for the UCITS structure. In effect, during 2010, Malta has in fact experienced the setting up of new UCITS structures some of which have converted from hedge funds into "Newcits" the newly baptised name for such structures when converting from hedge funds. This is primarily driven by the strong investor led protection that UCITS extends to investors which induces a high degree of comfort to both institutional and retail investors.

Within this context, Malta's increased visibility as an international fund domicile has contributed to the strong growth registered by the funds industry over this period. Industry statistics just released by the Malta Financial Services Authority clearly show that during the first two quarters of 2010, the number of funds domiciled in Malta continued to grow at a steady pace and as at June 2010, the total number of licensed Collective Investment Schemes (including sub-funds) totalled 436. This represents a net increase of 41 licences (or 11%) over December 2009. The number of Professional Investor Fund registrations continued to increase, from 285 licences in December 2009 to

Photos courtesy of Malta Tourism Authority

Chairman's Note *(continued)*

329 licences in June 2010, a net increase of 44 licences, or 15%, over December 2009. The Total NAV as at mid of this year stood at ¤7.93 billion, an increase of ¤1.93 billion over that registered.

Of interest, despite the significant restructuring that has been taking place in this area to reflect changes in investor appetite the strongest increase has been registered in the Professional Investor Fund (PIF) segment. In fact all of the 51 funds which were licensed in the first six months of 2010 by MFSA were PIFs. Thus bringing the number of newly licensed Professional Investor Funds domiciled in Malta to 331 as at the end of June.

Malta is truly becoming an attractive jurisdiction for the setting up of investment funds. The growth is not only being driven by new fund set-ups but also as a result of funds being redomiciled from non EU jurisdictions to Malta of which some are being converted to UCITS platforms.

These achievements are being driven by a number of key factors which include the high standards of regulatory oversight, the presence of an accessible regulatory body, the availability of highly qualified and multilingual human resources as well as the highly competitive set up and ongoing operational costs.

Predictions for 2011

Given the market turmoil, predictions have become even more increasingly difficult to articulate. Albeit as the saying goes, past performance is not necessarily a guide to future performance, based on the historical performance of the industry Malta is well on its way to become an international fund domicile of repute.

On a concluding note, I must stress the importance for all the practitioners, operators as well as the regulator to remain responsive to the growing demands of both the existing clients that have set up their operation of fund products in Malta and particularly the new ones. The quality of service delivery is ultimately a key differentiating factor when customers are considering jurisdictions for their fund platforms or their fund operations and to date, I firmly believe that the responsiveness and accessibility of all industry players has been critical to the success that we have achieved so far.

Finally, I extend my very best wishes for 2011 to you and your families.

Kenneth Farrugia
Chairman

26% Asset Growth in Malta-domiciled funds

MFSA Report

Figures released by the MFSA indicate a 13% growth in the Net Asset Value (NAV) of investment funds domiciled in Malta during the first six months of this year. This confirms the positive trend seen in the previous 6 months which had also seen a growth of 13%. The increase in the net asset value was contributed by a range of funds which are recovering from the financial crises together with a num-ber of new funds which started operating in the domicile last year. Total NAV at the end of June stood at ¤7.93 billion, after it had declined to around ¤6 billion at the height of the crisis in June 2009.

The strongest expansion is in the Professional Investor Fund (PIF) segment, despite the significant restructuring that has been taking place in this area to reflect changes in investor appetite. All 51 funds licenced by the MFSA in the first six months of 2010 were in fact PIFs. These new licences bring the tally of Professional Investor Funds domiciled in Malta as at the end of June to 331. By compari-son the number of UCITS funds remained the same at 45, while the number of non-UCITS stood at 33, three less than in December of the previous year. Another 26 overseas funds are authorised to be retailed in Malta. Out of 104 Schemes into which the funds are grouped, 72 are Multi-fund structures, 20 are stand-alone funds and 12 are Master/Feeder structures.

As at June 2010, diversified funds were the largest asset category, accounting for almost 51% of all the locally based funds. Equity funds were the second most common category with a share of 19% of the total number of funds while derivative funds accounted for 12%. There were no new authorisations for money market funds during the first six months.

The full report on the “Analysis of Collective Investment Schemes licensed by the Malta Financial Services Authority” may be found under the Publications & Events section on the MFSA website: www.mfsa.com.mt.

Source: MFSA

Private Banking & Asset Management Roundtable

MFSA Chairman, Prof Joe Bannister, took part in a Round Table Discussion at the Financial Times Headquarters in London on Novem-ber 8, 2010. The discussion, chaired by Yuri Bender, Editor of Professional Wealth Management Magazine, focussed on the evolution of private banking business models in the wake of the financial crisis.

Topics covered included the pitfalls of poorly conceived M&A activity, a lack of transparency surrounding fee levels and increasing levels of regulation. Issues of concern that came up for discussion included the role which regulators should play in providing distributors and private banks with the impetus to add extra value through asset allocation, rather than just acting as a middle man and taking commissions. One of the problems is that no matter how much consumer communication is carried out, clients still make mistakes. On the other hand service providers remain a problem, because their training on the product they are selling is sometimes weak. Unfortu-nately the distribution boils down to commissions and this situation needs to be addressed with urgency. Another concern that has been mentioned is that traditionally in Europe asset management has always been done through the banks and this causes a bit of con-cern as banks have access to client information. Another thing that is being noticed is that there seems to be more personal fiduciary and direct interaction, while, at least at the more sophisticated level the trend seems to be towards less discretionary management with clients tending to dictate where and how they feel their money should be invested.

Also participating in this wide ranging debate were Todd Ruppert, Chief executive of Global Investment Services, T Rowe Price; Emanu-ele Ravano, Head of Financial Institutions Europe, Pimco; Louay Al-Doory, Head of Global Business Development, Reyl & Cie; Toby Pittaway, Partner, Oliver Wyman; Jervis Smith, Head of Managed Funds and Insurance Emea, Citi Global Transaction Services; and Peter Astleford, Partner, Dechert LLP.

The event is reported in the Professional Wealth Management Maga-zine - December 2010-January 2011 issue pages 29-33. Full cover-age of the debate may be found at: http://www.pwmnet.com/news/fullstory.php/aid/3064/The_evolution_of_private_banking_business_models.html?current_page=3

Source: MFSA

Members' Directory

MANAGERS
APS Bank
HSBC Global Asset Management (Malta) Limited
Valletta Fund Management Limited

ADMINISTRATORS
Abacus Fund Administration Limited
Apex Fund Services (Malta) Limited
Calamatta Cuschieri & Co Ltd
Custom House Global Fund Services Ltd
HSBC Securities Services (Malta) Limited
Praxis Fund Services (Malta) Limited
SGGG Fexco Fund Services (Malta) Limited
TMF Fund Administrators (Malta) Limited
Valletta Fund Services Limited

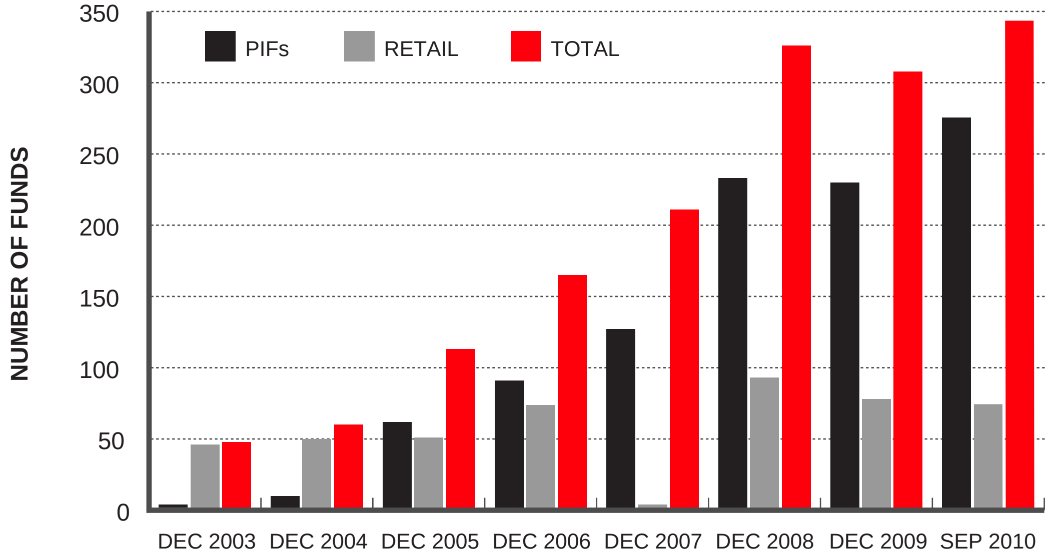
CUSTODIANS
HSBC Bank Malta plc
Bank of Valletta plc
Sparkasse Bank plc

AFFILIATES
Barclays International Investments (Malta) Ltd
Crystal Finance Investments Ltd
GlobalCapital
Growth Investments Limited
Island Financial Services Limited
Jesmond Mizzi Financial Services Limited
M.Z. Investment Services Limited

For details on how to become a member please visit **http://mfia.org.mt/member2.html**

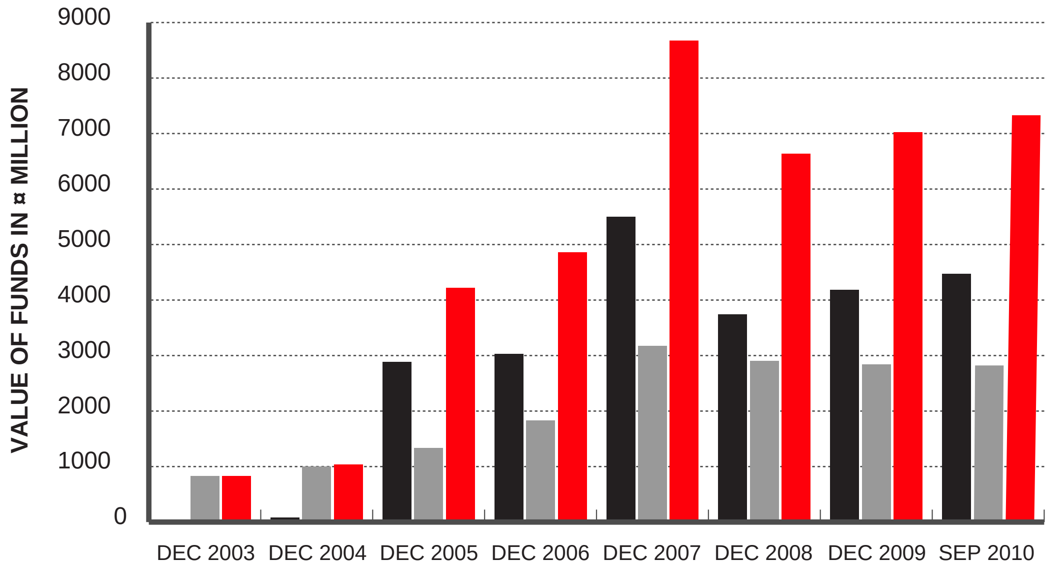
Industry Statistics

FUNDS DOMICILED IN MALTA
in number (Retail vs PIFs)



	DEC 03	DEC 04	DEC 05	DEC 06	DEC 07	DEC 08	DEC 09	SEP 10
PIFs	2	10	62	91	127	233	230	273
Retail	46	50	51	74	4	93	78	74
Total	**48**	**60**	**113**	**165**	**211**	**326**	**308**	**347**

FUNDS DOMICILED IN MALTA
in value (Retail vs PIFs)



	DEC 03	DEC 04	DEC 05	DEC 06	DEC 07	DEC 08	DEC 09	JUN 10
PIFs	0	33	2883	3027	5497	3740	4181	4487
Retail	831	1004	1338	1832	3172	2900	2843	2796
Total	**831**	**1037**	**4221**	**4859**	**8669**	**6640**	**7024**	**7283**

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