



# \$3.75bn

has been invested in SIV complying investments  
(Department of Immigration and Border Protection)

# ENTER THE DRAGON

As we move into the Asian Century, Aleks Vickovich sizes up the Significant Investor Visa and Chinese client opportunity for Australian financial advisers

**DESPITE ITS** continuing lip service to Marxism, the People's Republic of China is now home to an estimated 400 billionaires. Where the bicycle was once a symbol of China's commitment to economic equality, these days, Lamborghinis are just as common on the streets of its megacities.

As the world's most populous nation slowly but surely becomes one of its wealthiest, its trading partners and competitors are seeking to cash in on the emerging Chinese investor class – and Australia is no exception.

Courtesy of a rare piece of bipartisanship in Canberra, the Significant Investor Visa (SIV) program presents an opportunity not just for GDP growth in a world of dwindling commodities prices, but also for Australia's financial services community. Investment managers have been quick to seize the window, with no shortage of institutional and boutique fundies launching SIV-compliant products and offerings in recent years.

But while there is a growing pool of financial advisers looking to capitalise,

most are largely still in the dark about the business reality of the SIV scheme – more focused, it seems, on reducing compliance overheads than attracting foreign high net worth (HNW) clients.

However, experts in this niche area of immigration law say the SIV is not only a lucrative opportunity for retail financial advisers, but that their involvement may be crucial to the program's success.

This article lays out the opportunities and costs for financial advisers looking to expand their client base and develop long-term relationships for what Julia Gillard heralded as the Asian Century.

Though the SIV is available to citizens of any nation, more than 90 per cent of applications have come from mainland Chinese investors, while Hong Kong and Malaysia follow, with 3.0 per cent and 1.2 per cent respectively.

This feature will therefore focus specifically on the Chinese investor opportunity and the nuances of building a China-domiciled client network, since this is realistically where the opportunity lies.

Undoubtedly there are risks associated with going down this path – not least of which is volatile and sometimes unclear political oversight – but as Confucius is rumoured to have once said, "Some people dream of success while others wake up and work hard at it".

## The lucrative SIV

Technically a stream within the Business Innovation and Investment suite of visas, the SIV aims to "provide a boost to the Australian economy and to compete effectively for high net worth individuals seeking investment migration", according to the Department of Immigration and Border Protection (DIBP).

Visa holders are required to invest a minimum of \$5 million in "complying investments" over a period of four years, after which they will become eligible for permanent Australian residency – an increasingly prized possession among Asia's elite. In addition, the government operates a Premium Investor Visa (PIV) program



which requires an even more significant \$15 million investment over a 12-month period, effectively fast-tracking the process for the ultra-wealthy.

So far, DIBP has received 2,287 SIV expressions of interest, with 1,679 applications formally lodged of which 751 have been granted. The program has already resulted in \$3.75 billion in inflows to complying investments, with an additional \$2.7 billion expected.

The SIV is clearly providing tangible monetary benefits to Australia – and some select members of its funds management community. La Trobe Financial chief investment officer Chris Andrews, for example, says the SIV program has sound policy upsides in its ability to “generate capital flows into Australia, [boosting] economic activity and jobs across a range of sectors” while also providing “a strong source of investment flows” and access to new business relationships for his particular business.

However, while the visa has broad support from industry and both sides of politics, this has not safeguarded it from tinkering and infighting, with major changes flagged for the complying investments criteria, which some say could make the whole regime less accessible to advisers.

Moving the goalposts

While, originally, the states and territories had jurisdiction over the various investment visa programs, the regime was ultimately federalised in a bid to streamline it and make it less confusing to prospective applicants.

Following the federal takeover, the government initially restricted investments into direct residential property but refrained from further intervention, resulting in a vast majority of SIV funds flowing into government bonds and residential REITs.

Baker & McKenzie partner Bill Fuggle told delegates to a recent Association of Independently Owned Financial Professionals (AIOFP) conference that government bonds were particularly attractive to Chinese investors misguidedly looking to “curry favour” with government officials thereby shoring up their permanent residency prospects.

However, in late 2014, federal trade minister Andrew Robb announced a number of changes to the complying investment regime, specifying that 40 per cent of the investment under the SIV will need to be directed to start-up and small cap equities through venture capital or private equity funds, or managed funds specialising in emerging companies. In other words, the government sought to align the program more closely with its domestic economic agenda.

“While the government acknowledges that this will likely result in a decrease in visa applications, they believe that this will better target the use and application of funds received,” says Alexis Kokkinos of accountancy firm Pitcher Partners.

Some financial services practitioners have welcomed the move, set to commence on July 1. For example, Michael Pinn of boutique licensee Pinn Deavin – one of the organisers of the AIOFP’s recent delegation to China to meet with SIV investors – says the public policy benefits of the government’s change in direction are clear.

“[Ideally] all of the money should be invested into entrepreneurial opportunities,” Mr Pinn says, speaking on the sidelines of the Shanghai meet.

“If that means Australia only gets 50 applicants and not 5,000, it means we get 50 of what we wanted and not 5,000 lots of what we didn’t want.”

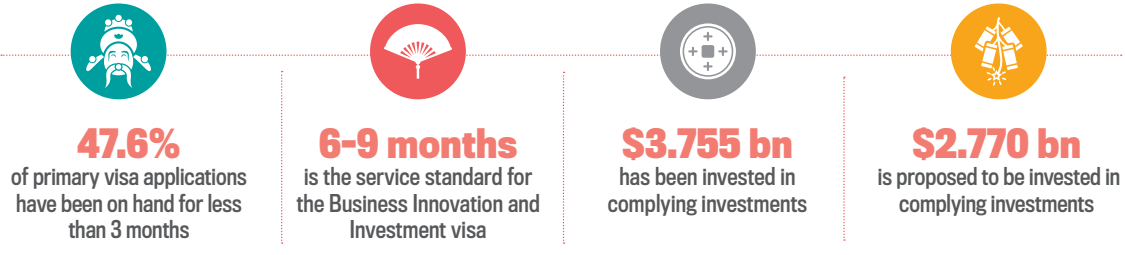
George Boubouras of Contango Asset Management – one of the SIV-compliant fund managers – similarly tells us the GDP benefits of the change are sound and that “everyone’s interests are now aligned”.

But public interest notwithstanding, when it comes to their own prospects of getting a piece of the SIV pie, not all advisers and fund managers will be cheering the new rules.

Item	Total
Expressions of Interest (EOI) submitted through SkillSelect	2,287
Invitations to apply for a SIV issued as a result of applicants being nominated by a state or territory government	1,972
Primary applications lodged	1,679
Primary visas granted	751

The table above shows statistics since commencement of the SIV on 24 November 2012 until 31 March 2015.

As of 31 March 2015:



Source: Department of Immigration and Border Protection

‘Don’t quit your day job’

While he agrees the government’s proposed changes to the SIV scheme are good for Australia, financial adviser Lance Meikle, principal of non-aligned Brisbane practice Alps Network, says they make these investors less accessible to the average adviser.

“The entry bar is now raised because while you don’t necessarily need special accreditation, you do need a high intellect and level of comfort with these types of investments,” Mr Meikle says.

“Specialisation is now imperative; you need to understand [private equity] and venture capital and quite frankly most planners probably do not,” he says, adding that start-up and emerging equity investment is a “long way away” from most approved product lists and model portfolios.

Mr Meikle had already taken steps to brush up on this content since he has long been interested in the Western Australian pre-SIV foreign investment visa which specifies similar restrictions. Having decided to specialise more specifically in SIV in recent years, he says it was a matter of “years not months” before any return on investment was made, and that specialisation did not just mean expanding investment advice capabilities, but also being across immigration law and the cultural differences between Australian and other financial services markets.

SIV expert David Chin of Basis Point Consulting agrees that the SIV opportunity is most accessible to a sub-sector of the broader financial advice industry. “Yes, [there is an opportunity], but only for financial planners in the HNW space i.e. private bankers and planners working with family offices and HNW individuals,” Mr Chin says. “This is because the SIV Chinese client would seek reassurance that the planner has already gained the skills and trust from an existing pool of HNW Australians.”

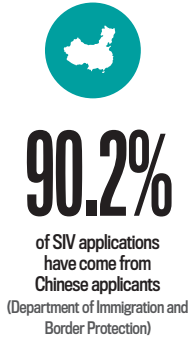
He says it would be preferable for advisers targeting this market to have in-house Chinese language capabilities in order to facilitate greater convenience and trust, and that some investors may also have a preference for ethnic Chinese financial advisers.

Consultant Paul Tynan of Connect ASEAN, who specialises in facilitating relationships between Australian financial planning SMEs and Southeast Asian counterparts, says Chinese language skills are essential to making serious inroads into the mainland Chinese investor community.

However, more accessible opportunities are available in countries like Malaysia and Singapore, where the English language and legal system still looms large in the business world, he says.

Arguably Australia’s most prominent SIV specialist financial adviser, NAB Private Wealth’s Stacey Martin, firmly believes there is a strong need for these investors to see Australian financial planners, not just to help them navigate the Australian investment market but for strategic advice on tax and cash flow management and general “guidance”.

But Ms Martin, a founder of the online Expat Advisors Community and ambassador for NAB’s business activities in Asia, concurs that a half-assed approach will not be successful. The ancient Chinese philosophy of ‘guanxi’ – in which trusted business relationships form the basis of success, far beyond the Western concept of ‘networking’ – demands that advisers take a long-term approach and focus on building deep



trust. Once that trust is earned, referrals will flow, she says, but understanding the cultural nuances will require careful research and will likely be a process of trial and error.

On the issue of the government’s changes, Ms Martin is decidedly ‘glass half full’: “Many are concerned about the risks of mandating investment in start-ups, but you can either think that way or embrace it,” she says. “Many [SIV] investors are self-made and are not opposed to investing in [the small cap and venture capital] space. It taps into their entrepreneurial spirit and it is important to position it that way.”

The SIV opportunity is “exciting”, she says, but also offers a word of advice: “My recommendation is to have this niche alongside your regular client proposition – don’t give up your day job”.

Howdy, partner

Both Ms Martin and Mr Meikle – two advisers already successfully pursuing an SIV client acquisition and retention strategy – attribute their success to one external relationship more than any other: the migration agent.

For two years, Mr Meikle tried in vain to turn his SIV efforts into profit before coming to a crucial epiphany: “To see any revenue from SIV you really need to be working with an immigration

specialist,” he says. “They are integral to the process because no matter how good a planner might be at what they do, you really do need resources devoted to the technical legal side”.

It wasn’t until his business tied up with a Western Australian migration agent with strong China credentials that the Alps Network began to see some solid return on investment. Mr Meikle now has several clients on SIVs paying between \$30,000 and \$50,000 per annum each, a fee for service he says greatly exceeds that of some of his local clients and reflects the underlying investment and specialisation involved.

NAB’s Ms Martin agrees that the migration agent relationship is paramount and usually has Migration Alliance founder Liana Allan join her on stage when conducting presentations on the SIV advice opportunity.

“The partnership with migration agents is essential – if you don’t have it, it can be very difficult to access potential clients,” she says. “It’s all about partnering with the right people across an advice-led proposition.”

For Ms Allan at the Migration Alliance, the benefits cut both ways. Not only can a migration agent provide advisers with access to SIV investors, but advisers can in return help increase the prospects of a successful application.



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“TO SEE ANY REVENUE FROM [SIV INVESTORS] YOU REALLY NEED TO BE WORKING WITH AN IMMIGRATION SPECIALIST. THEY ARE INTEGRAL TO THE PROCESS”

Lance Meikle, Alps Network

“It would be close to impossible to assist a migrating client without referring to a qualified financial planner,” Ms Allan tells *ifa*. “If they do not have this advice, their visa application is likely to be refused. [DIBP] is looking for a properly executed, well thought out investment strategy.”

However, advisers looking to tie up with migration agents should be careful to ensure their new partner is professional and trustworthy, Ms Allan warns, urging advisers to ensure the agent is registered and ideally a Certified Migration Agent with the Migration Alliance, which has a professional code of conduct along the same lines as a number of adviser associations.

Traditional referral arrangements between advisers and migration agents are the most common form of partnership, given the heavy regulation of both sectors, but some are also experimenting with alternate systems such as bringing a full-time agent into an advice practice.

Once the SIV has been approved, the professional partnership remains important, with product manufacturer relationships paramount. Asked whether the new rules governing SIV-compliant investments will

shut out some advisers, Contango’s Mr Boubouras says it is unnecessary for advisers to become specialised in start-up investment in order to secure SIV clients.

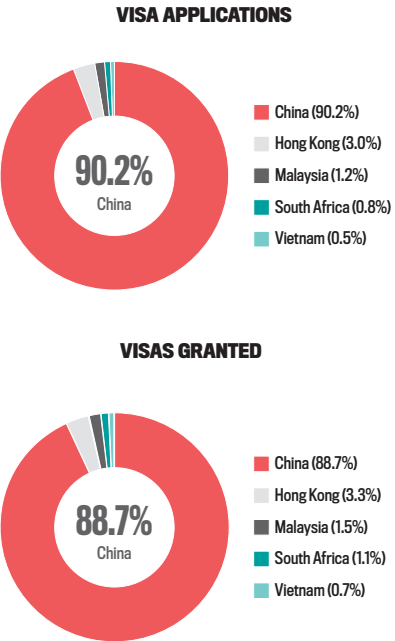
“You don’t need to become an expert, but you do need to partner with experts,” he says. “For a financial planner to be fully across mezzanine debt and subordinated credit funds, for example, is not realistic.”

Nevertheless, a thorough APL process needs to be in place and advisers should ensure investment managers specialising in these complying investments are rated well, he says. Contango has a number of large, small and micro-cap funds eligible for SIV investment and was a major sponsor of the AIOFP’s delegation to Shanghai.

La Trobe Financial is another boutique that has been quick to bring SIV-compliant funds to market, including its flagship La Trobe Australian Mortgage Fund.

La Trobe’s Chris Andrews says he is optimistic about the ability of advisers to be successful in this space but says they need to work with fund managers to ensure the investment products they recommend are “palatable” to the SIV clients on cultural and risk profile grounds.

DISTRIBUTION OF PRIMARY VISA APPLICATIONS AND VISA GRANTS FOR THE TOP FIVE SOURCE COUNTRIES FOR THE SIV



Source: Department of Immigration and Citizenship

47.6% of primary visa applications have been on hand for less than 3 months (Department of Immigration and Border Protection)

The boutiques are not the only ones on board – the major banks all offer SIV-compliant funds, with NAB Asset Management particularly active. Ms Martin says that in addition to NAB AM’s funds and others on the NAB Private Wealth APL providing investment opportunities, other services – such as migrant banking – are an important part of the story.

Ms Martin herself provides consulting services to advisers who are looking to access this new client base, as do Paul Tynan and David Chin, indicating there is no shortage of stakeholders willing to share expertise in this very niche area.

‘Team Australia’

Underlying all the jargon and detail of immigration policies and complying investments there seems to be a genuine patriotic excitement about the broader significance of the SIV for Australia’s place in the region.

Mr Andrews says the people-to-people relationships afforded by the investment visa regime are just as important as the investment flows.

“The SIV has been a startlingly effective catalyst for cross-cultural exchange between Australia, China and south east Asia in particular,” he says.

“IT WOULD BE CLOSE TO IMPOSSIBLE TO ASSIST A MIGRATING CLIENT WITHOUT REFERRING TO A QUALIFIED FINANCIAL PLANNER”

Liana Allan, Migration Alliance

“In this, the Asian Century, a program such as this is an important part of our regional and economic outreach.”

Ms Martin, a long-time advocate of cross-border financial advice, agrees that cultural opportunities abound, but says an education process is also necessary, particularly for Chinese investors who would be unaccustomed to paying for professional services.

Conflicted remuneration is alive and well in the Chinese investment market, so for advisers, converting SIV investors to fee-paying clients begins with an introductory cultural narrative.

“When I’m speaking with these investors at events or with their migration agents, we focus on articulating the advice-led aspect of our proposition, which aligns with our fee-for-service regime,” she says.

“The financial planner charges a professional fee, as will the accountant and ideally the migration agent too. It is about collaboration to deliver the appropriate solution as Team Australia.”

The other side of the coin is that as the SIV program garners more widespread attention, a growing number of sharks, both in the investment and immigration spheres, are targeting the SIV investors. Misconduct involving these investors would likely have a

negative impact on the entire scheme and the professional operators, given the Chinese adherence to ‘guanxi’ and the concept of ‘face’ (broadly equivalent to status, reputation or dignity).

It is therefore vital, says Ms Martin, that professional advisers do get involved and ensure investment visa holders do not become fodder for spruikers and nogoodniks.

Many investors will also be interested in the relationships advisers can provide through their existing client bases and personal networks.

For David Chin, the provision of retail advice to SIV investors is just one small aspect of the Asian financial planning opportunity.

“China’s financial services industry is fast developing,” he says. “There are opportunities to transfer Australian financial planning expertise to joint venture partners in China to develop their own financial services sector over there.”

Through this prism, the SIV advice opportunity may help open the doors to more collaboration between the two countries in the Asian Century. As long as Chinese growth continues unabated and luxury cars continue to replace pushbikes on the streets of Shanghai, the Australian financial services industry will no doubt be keeping a watching brief. ●

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