



Productivity Commission
Level 12
530 Collins Street
Melbourne
VIC 3000
Email: migrant.intake@pc.gov.au

24th December 2015

Dear Sir/Madam,

Submission to the Productivity Commission Draft Report on Migrant Intake into Australia

Moelis Australia Asset Management Ltd ("Moelis") welcomes the opportunity to provide input into the Productivity Commission's draft report on Migrant Intake into Australia published in November 2015.

Moelis is an Australian based fund manager which offers a number of managed funds which are complying investments for the purposes of the Australian Significant Investor Visa ("SIV"). Moelis has been involved in the SIV since its inception in 2012 and has consistently provided advice and feedback to the Australian Government based on our experience on the ground in Asia and our position as the market leading SIV fund manager.

The SIV was intended to create jobs and stimulate the Australian economy and we believe it has broadly succeeded in these aims and helped to attract a source of capital to Australia which would not otherwise have been invested here. However certain changes were required to ensure the SIV continued to meet the original policy objectives and Moelis remains very supportive of the recent targeted changes made by the Government from 1 July 2015 which we will believe will help to improve the integrity of the program and ensure it has a longer lifespan and continues to contribute greatly to the Australian economy.

We have a range of concerns over the draft report's analysis and conclusions in relation to the SIV program, and therefore our submission focuses on the issues raised in this context (Section 10.2).

If you would like to discuss any aspect of this submission further, please do not hesitate to contact me

Yours sincerely,

Andrew Martin
Managing Director

MOELIS AUSTRALIA ASSET MANAGEMENT SUBMISSION

To: Stewart Turner, Research Manager - Migrant intake inquiry
Productivity Commission, Level 12, 530 Collins Street, Melbourne VIC 3000

From: Moelis Australia Asset Management Ltd

Date: 24th December 2015

Subject: **Formal Submission to Productivity Commission Draft Report – November 2015
Migrant Intake into Australia**

1. Introduction

The following paper contains a comprehensive response to the invitation for submissions on the Productivity Commission Draft Report (November 2015) entitled Migrant Intake into Australia (the "Report") from Moelis Australia Asset Management Ltd ("Moelis").

This submission will focus on section 10.2 (Business Innovation and Investment Program) of the Report in particular the section related to the Australian Significant Investor Visa ("SIV").

Our submission highlights several flaws that we have observed in the Report including the approach taken, the lack of thorough supporting analysis, the use of emotive language and several unsubstantiated observations which we will cover in later sections.

2. Background

Moelis has been actively involved in the development and implementation of the SIV program and so are in a unique position to offer the Government views and recommendations on the SIV program.

We are one of the largest fund managers currently offering complying funds to SIV investors. We currently have well over 100 SIV investors fully invested in several SIV funds which invest across a range of asset classes including cash, government bonds, corporate bonds, listed equities, private equity, venture capital and commercial property.

Like the Government, we are concerned to ensure the SIV program achieves its original policy objectives of attracting talented business migrants and significant investment capital to Australia, remains globally competitive and maintains the highest levels of integrity.

Moelis was involved in the original formulation of the SIV program and helped "road test" many of the original elements in Asia. Throughout the program we have provided proactive feedback to the Government on policy, implementation and integrity issues.

Moelis is a prime example of the success of the SIV program and now has employed 10 dedicated SIV fund staff in Sydney and has assets under management ("AUM") and commitments in our SIV funds of A\$1bn. We are a specific success story of how the SIV program can benefit Australian and our strategic objective is to leverage the SIV program to build a significant wealth/asset management business between Australia and Asia (particularly China), without the SIV program this would not be possible.

Since introduction of the SIV program, we have had significant on-the-ground experience in Asia gained through:

- over 50 separate trips to the region
- 4 different countries and over 30 different cities
- contractual relationships with over 100 agents
- meetings with over 2,000 potential SIV applicants
- 100+ approved SIV holders
- Plus many more committed to investing with Moelis.

3. The economic impact of the SIV and PIV streams

This section seeks to address several points made in the section entitled "The economic impacts of the SIV and PIV streams" (p. 351-354) which are set out below:

3.1 *"The SIV and PIV streams could lead to economic benefits if complying investment reduces the cost of capital to Australian businesses. This could happen if the existence of these streams leads to investment that would not have otherwise occurred. However, there are reasons to be sceptical about whether these visas have a material effect on investment in Australia. First there is the matter of scale.*

According to the DIBP annual report for 2013-14: Since November 2012, 286 SIVs have been granted to primary applicants, resulting in \$1430 million being injected into the Australian economy. (2014b, p. 36)

To put that figure in perspective, in the year ended 31 December 2014 foreign investment in Australia was \$261 billion The SIV stream makes a trivial contribution to foreign investment in Australia."

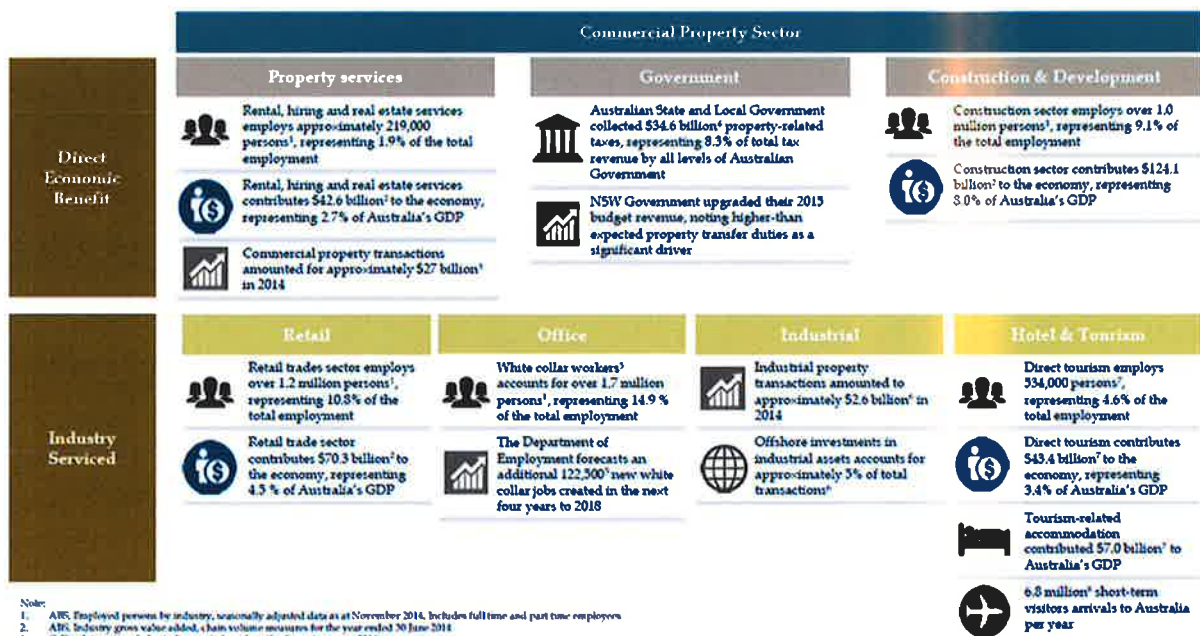
Moelis Response:

- In our opinion, it is far too early in the life of the SIV program (especially post the 1 July 2015 changes) to be reaching the definitive conclusions in the report.
- In any case, the Report quotes figures which are more than 15 months out of date which is misleading and not the correct basis on which to form conclusions on the impact of the SIV.
- The most recent update from the Department of Immigration ("DIBP") shows that as at 31st October 2015 there had been 1,075 SIV's granted to applicants and their families resulting in an investment of A\$5.375bn into the Australian economy. See: <https://www.border.gov.au/about/reports-publications/research-statistics/statistics/work-in-australia/significant-investor-visa-statistics>
- On any measure the direct injection of A\$5.4bn of new foreign capital into the Australian economy is not "trivial" and to the contrary is indeed material.
- The first SIV was not granted by the DIBP until June 2013 with a significant flow not commencing until 2014:
 - 88 SIVs were issued at 31-Dec-13
 - 595 SIVs were issued at 31-Dec-14 (an increase of 507 or 576%)
 - 1,075 SIVs were issued at 31-Oct-15 (an increase of 480 or 78% in 10 months)
- It is clear that the SIV is still increasing in popularity as migrants become more familiar with it and growth is continuing. Based on our experience, we expect the material capital flows under the SIV program to continue.
- Importantly, the statement above makes no mention of the additional investment which has resulted from and is expected to result from SIV investors and their families investing in Australia. In our view, the investment "multiplier" effect will be significant and ultimately the total capital invested will be multiples of the capital invested under the SIV program. The vast majority of our SIV investors have indicated a genuine intention to make material investments into Australia outside the SIV program which they would not have pursued without being holders of SIVs.
- The Report concludes that the program's success can be determined by how much it can "reduce the cost of capital to Australian businesses. While this may be a desirable side effect of the SIV program, it is just one of the factors which make the SIV program important to Australia.
- Other real and direct benefits of the SIV program include jobs created, overseas investment in Australian businesses, real estate and infrastructure and the development of international partnerships and relationships.

3.2 “A second consideration is the allocation of SIV assets. Where SIV holders invest in highly-liquid assets it is doubtful that the program makes any material contribution to the cost of capital for Australian businesses. Under the revised complying investment framework up to 60 per cent of SIV assets can be invested in managed funds that invest in assets including ‘blue chip’ listed equities and corporate bonds.”

Moelis Response:

- The Report takes no account of the fact that under the new complying investment framework the 60% balancing investment can be invested in a range of investments which also includes commercial property.
- Moelis’ largest SIV funds to date are the Moelis Australia SIV Property Fund and Property Visa Fund (“Property Funds”) which both invest in commercial property in Australia. We currently have just under A\$300m of funds under management on behalf of SIV investors.
- The Property Funds do not invest in residential property or development projects only in commercial real estate projects throughout Australia and have already made 10 investments in both major capital cities and regional towns in QLD, VIC, NSW and WA.
- We have encouraged investment in ‘priority’ sectors for Australia such as tourism infrastructure and our Property Funds currently have investments in two hotels in Sydney and Melbourne along with a shopping centre in regional Victoria which is the largest employer in the town.
- Commercial real estate projects allow benefits to be spread across the general economy (payment of stamp duty, due diligence advisors, management costs, employment at property locations)
- The Property Funds can demonstrate clearly the “multiplier effect” which has resulted from our investments around the country including valuers, structural engineers, environmental engineers, town planners, property managers, lenders, lawyers, fund administrators, custodians, banks, graphic designers, printers and stamp duty to local State Governments.



Note:
 1. ABS, Employed persons by industry, seasonally adjusted data as at November 2014, includes full time and part time employees
 2. ABS, Industry gross value added, chain volume measures for the year ended 30 June 2014
 3. Collier International, Australian capital markets third quarter report 2014
 4. ABS, Tax Revenue for State and Local Government across all states for the year ending 30 June 2013, Composes \$21.7bn billion in taxes on property and \$12.8 billion in stamp duties on conveyances
 5. Department of Employment, 2014 employment projections, includes employment in Financial and Insurance Services, Professional, Scientific and Technical Services, Administrative and Support Services
 6. Collier International, Industrial research and forecast report, second half 2014
 7. Tourism Research Australia, Tourism Satellite Account 2013-2014
 8. ABS, Number of arrivals by short term visitors, seasonally adjusted data for the year ending September 2014

- 3.3 *“Investment by SIV and PIV holders would account for a trivial percentage of capital flows to Australia and investment in these asset classes. The idea that SIV/PIV investments in these assets would reduce their prices (and as such reduce the price of capital to Australian businesses) below what they would have been in the absence of the SIV and PIV visas is untenable. All these visas would achieve would be to substitute at the margin investment by an alternative purchaser who might not have been granted a visa simply for owning an asset.”*

Moelis Response:

- Firstly it is incorrect to state that increased investment from the SIV would reduce the share prices of companies, in actual fact the opposite effect would be expected to occur from an increase in demand (increase in share price).
- The number of SIVs used by the Report as a basis to calculate the potential impact on the economy (300 per year) is about 40% lower than the actual number of SIVs granted last year.
- It is too early to make an assessment on whether the new complying investment framework launched on 1 July 2015 has had any impact on the flow of investment to Australian private or small cap companies. The rules were changed on 1 July 2015 and as normal with any change in new policy the take up by investors has been slow and it will take some time to learn about and gain confidence in the new rules (this is exacerbated by the large volume of applications before the cut-off in April).
- Assuming the number of SIVs being granted reverts to the average for the past 2 years of 500 per annum, this would result in investment to emerging private and emerging companies as follows:
 - \$250m p.a. in Australian venture and growth private equity
 - \$750m p.a. in Australian listed emerging companies
- On any measure these capital flows are not “trivial”.
- These capital flows will have a material impact on small and medium enterprises in Australia at a time when the Government is trying to promote increased investment in innovation, research and emerging/ growth companies.
- Moelis has already accepted 3 investors into our SIV Funds under the new rules and have invested on their behalf into our registered VCLP and our small /emerging companies fund.
 - Our VCLP is currently undertaking due diligence on a number of potential investee companies in the agribusiness, technology and consumer product sectors. All of these companies are growing and in need of capital.
 - Our Small Cap Fund has already invested ~\$4.5m in 22 emerging Australian companies all of whom are listed on the ASX with have a market cap of \$500m or below.

- 3.4 *“The effect of this requirement [investment in start-up and small companies] on the cost of capital for Australian start-up businesses is immaterial.”*

Moelis Response:

- This is an unsubstantiated comment which is directly contrary to our experience.
- In the 5 years to June 2015, the Australian Private Equity and Venture Capital Association (“AVCAL”) noted that VC funds in Australia raised only \$985m or approximately \$197m per annum on average.
- Assuming that the annual rate of issuance for the SIV continues at an average of 500 per annum this would more than double the annual contribution to VC funds in Australia at a time when the Government is publically trying to foster increased investment in innovation and start-up companies. This is also a source of capital which would not otherwise be invested in the sector.
- We currently have 16 unlisted private companies under due diligence for our SIV VCLP, the companies are in different industries including agribusiness, consumer products, food, retail and information technology. All of the businesses we are reviewing have an urgent need for start-up, expansion or later stage funding.

- 3.5 *“... there is no reason to expect that SIV and PIV holders would be systematically more successful in these respects [business acumen and links to their home countries that could increase economic activity] than holders of other visas.”*

Moelis Response:

- This statement is without basis or evidence.
- Our experience of dealing with over 100 successful SIV cases (and several hundred other future and/or potential investors) is that the vast majority tend to be highly successful entrepreneurs who have a genuine desire to invest and settle in Australia over time.
- Most of them intend to send their children to school/university here and almost all of their children who will generally inherit the family business will have close links and attachment to Australia making it likely they will seek to trade with and move the headquarters of business to Australia.

- 3.6 *“There are also reasons to be sceptical about the impacts of the SIV and PIV. One is the use of ‘loan back’ arrangements during the first two and a half years of the SIV. Some SIV holders arranged with banks (including Westpac and Macquarie) to use their SIV complying investments as security for loans. This was permitted under the regulations at the time, and there was no restriction on how loaned funds were used. This created a loophole that potentially allowed immigrants to gain permanent residency with no net financial contribution to Australia (Boyd 2015). This loophole has been closed, but it shows that potential SIV immigrants (enabled by finance firms) will identify opportunities to act outside the spirit of the program to achieve permanent residency.”*

Moelis Response:

- We agree with the assessment that loan-backs, although technically legal, were contrary to the spirit of the SIV as we repeatedly pointed out to the Government from early when it became apparent that they were being used.
- However this loophole has now been closed and many of the major players offering such loan-backs have stopped promoting them (including Macquarie) from when the Government expressed their desire to stop them.
- We believe it is unfair to use this as a criticism of the entire program given they are no longer permitted.

- 3.7 *“In general, younger immigrants contribute more to the Australian economy (because they have more of their work life ahead of them) and English-language skills are extremely important for success in Australian business.”*

Moelis Response:

- This statement is unsubstantiated and totally inconsistent with our experience.
- Our SIV investor base is diverse in terms of age and industry background.
- The average age of our SIV investors is 43 years and the vast majority are clearly in their “prime” business years and are ideally positioned in terms of business experience and stage of life to make a material contribution to the Australian economy.
- We have found our SIV investors are almost entirely keen to contribute more to Australian society including sending their children to school and university here and establishing businesses or business links particularly in the industry with which they are most familiar.
- Our experience with SIV investors does not support the observation that “English-language skills are extremely important for success in Australian business.” In our view, there are many other far important factors such as business experience, financial capacity, appetite to take risk and cross-border business relationships. Where an SIV holder has limited English this has not been an impediment to business and in any case such persons are well supported by family, business associates and advisers from a language point of view.

- 3.8 *“The only definite economic benefit of the SIV and PIV streams is to fund managers who have access to a new source of capital, with the associated fees and commissions. In economic terms the SIV complying investment framework leads to a transfer of rent from non-Australians to Australians.”*

Moelis Response:

- This statement fails to acknowledge the fact that the SIV program can make a material difference to the Australian funds management industry. Australia has had a long term aim of being a major financial hub in Asia.
- The funds management industry in Australia is world class with the third largest pool of funds under management (FUM) globally and the largest in Asia Pacific.
- We have developed an experienced, highly regulated and well regarded industry and this knowledge and expertise should be a major export and source of income for the country.
- Notwithstanding this, the export of this capability offshore and particularly into Asia has been unsuccessful. Only 3.5% of funds managed in Australia is on behalf of foreign investors (Source: ABS, December 2013)
- Relative to major financial centres Australia’s share of foreign sourced FUM is very low. By comparison FUM managed from offshore in leading financial centres is:
 - 80% in Singapore (Source: Monetary Authority of Singapore 2013)
 - 65% in Hong Kong (Source: Hong Kong Securities and Futures Commission 2013)
 - 40% in the UK (Source: Investment Management Association 2013)
- On a broader measure of the export of overall financial services from Australia only represents 0.1% of the GDP (Source: ABS, 2013). This compares to:
 - 5.8% in Hong Kong (Source: Hong Kong Census and Statistics Department 2014)
 - 5.6% in Singapore (Source: Department of Statistics Singapore 2013, Ministry of Trade and Industry Singapore 2013).
- There are several benefits to Australia to be gained by developing the export of our funds management service sector. *“The size of the potential gains to key economic measures indicates that there would be significant benefits to the Australian economy from increasing exports of fund management services”* (“The Economic Impact of Increasing Australian Funds Management Exports, Deloitte Access Economics, May 2014 (Deloitte Study))
- Increasing exports of FM services will have material flow-on effects:

- Australia's economy – providing links overseas, helping to make overseas investors aware of investment opportunities in Australia and highlighting the skills of the Australian financial services industry
- Australia's gross domestic product (GDP) – increases in the export would have a material direct and direct economic contribution to Australia's GDP. Even at the current low level of FM exports the industry contributes \$434m pa to the Australian economy (\$219m in labour income and \$215m in gross operating surplus). If the Australian FM exports increased to Hong Kong levels an increase in GDP of \$4.2b would be achieved by 2029/30 (Source: Deloitte Study)
- Australia's cost of capital - lowering the cost of capital in Australia through the increased supply of additional funds from abroad
- Australia's employment - additional capital flows and the lower cost of capital would materially increase Australia's employment
- Australia's FM industry – by supporting an industry in which Australia has a comparative advantages given its large and highly skilled financial sector and large superannuation asset base
- Australia's tax revenues – would materially increase through the additional income generated.
- There is significant scope for growth of the Australian funds management industry in Asia given Australia's:
 - competitive advantages of a highly skilled workforce
 - proximity to Asia
 - economies of scale due to the existing superannuation system.
- To date the funds management industry has failed to penetrate Asia. The SIV program, however represents a significant opportunity for the funds management sector to expand in Asia.
- The Singapore investor visa scheme (GIP/FIS) was a significant factor in establishing Singapore as one of Asia's major financial hubs and a thriving financial centre.
- Moelis as a real example plans to establish itself as a major Australia-Asia fund manager managing funds for Chinese and other Asian investors in Australia, using the experience, track record and credibility gained from the SIV as a “beach-head” into China, without the SIV this would not have been possible.

4. Social impacts of the SIV and PIV streams

- 4.1 *“Because of the small size of the SIV and PIV streams, their social impacts are likely to be small. However, the absence of an age limit or English-language requirements and the minimal residency requirements for SIV and PIV holders are unlikely to be consistent with successful integration into the Australian community.”*

Moelis response:

- This statement fails to acknowledge that an applicant who does not have an acceptable level of English they must then pay a second instalment visa charge of \$9,795 for the primary applicant and \$4,890 for any secondary applicants. This amount can be used to fund English language lessons for the applicants when they arrive in Australia.
- Our experience of SIV investors is that the majority are well educated and experienced in international business and often speak a good level of English. In the case where there primary applicant does not speak English, the secondary applicant (being the children) almost always do.
- All of them without exception want to migrate their families here in the medium to long term and are keen to make an ongoing contribution to Australian society.

5. The Commissions assessment of the SIV and PIV and a more transparent alternative

5.1 *"The SIV and PIV are based on the assumption that attracting wealthy people to Australia is inherently beneficial. These benefits are highly questionable. To the extent that they exist the current scheme directs most of the benefits to a handful of fund managers. If the Australian Government intends to retain a scheme to permit wealthy foreigners with a minimal commitment to Australia to obtain permanent residency, the SIV and PIV should be replaced with a more transparent scheme that delivers direct benefits to the wider community. One option would be to replace the SIV and PIV with a visa subclass with minimal requirements aside from security, character and health, accelerated processing and a high, non-refundable fee payable to consolidated revenue.*

Moelis response:

- The statement that the program is "highly questionable" is ill-informed and incorrect and lacks supporting analysis and data.
- We believe as stated in this submission that the SIV program brings significant advantages to Australia as follows:
 - Attracts investment capital to Australia which would otherwise not be invested here and in turn benefits the economy through the "multiplier effect" whether the money is invested in bonds, equities or commercial properties.
 - Attracts investment capital to small Australian emerging listed and unlisted companies. The 10% allocation (to be increased to 20% over time) to Australian early stage venture capital and growth private equity will bring welcome investment capital to a sector which has been in decline and is in need of additional investment. We believe this is a significant opportunity to attract additional capital to fund Australian innovation and research which will ultimately lead to many successful business and create jobs.
 - The Australian funds management industry has a significant opportunity to capitalise on the SIV and establish Sydney and Melbourne as major financial hubs for Asia as the continent grows and more people enter the middle and upper classes they will look for the experience of the highly regulated Australian market.
 - Our experience of SIV investors to date has been that they are well educated and keen to migrate their families to Australia and establish business and cultural links between their home country and China.
- The alternative proposed by the Productivity Commission of a non-refundable fee payable to consolidated revenue would be highly unpopular with investors, globally uncompetitive and unrealistic and in our view would be a complete failure.