

A WELL-OILED VALUE PROPOSITION

HAVING JOURNEYED FROM SCOTLAND TO THE US MORE THAN THREE DECADES AGO, JIM MCCAUGHAN IS NOW CHIEF EXECUTIVE OFFICER OF PRINCIPAL GLOBAL INVESTORS. ON A RECENT TRIP TO SINGAPORE, HE SPOKE WITH HUBBIS ABOUT HIS VISION TO CONTINUE TO LEVERAGE LOCAL BANKING PARTNERS AND THE FIRM'S MULTI-BOUTIQUE STRUCTURE TO ACCESS OPPORTUNITIES IN ASIA, PLUS STAY UP-TO-DATE WITH CURRENT DISTRIBUTION TRENDS.

Principal Global Investors has a very clear two-pronged strategy to grow its wealth management offering in Asia.

This involves forging joint ventures with top-tier onshore players to access local retail markets on the one hand, and bringing its multi-boutique offering to investors at the higher end of the wealth spectrum on the other.

In short, to ensure its relevance to Asia's customer base, it is focused on specialist products which add value to portfolios. It is also a strategy which enables the firm to be agile to keep up

Investors offering, helping to define the firm's value proposition.

And at a time when most developed markets around the world are offering low to zero interest rates on bank deposits, Principal Global Investors' strategies can deliver between 3% and 5%. While this inevitably involves some risk, they also offer liquidity and a fair degree of diversification.

This level of performance in an otherwise challenging market environment affords the firm the regular ear of various fund gatekeepers.



Jim McCaughan

Principal Global Investors

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with investor demand at a particular point in time.

Indeed, active strategies which create diversified sources of premium yield are at the core of the Principal Global

“We become their provider of high yield bonds, or investment grade bonds, or preferred securities, or emerging market debt, or REITs – all of which are yield strategies which we have a history and strength in,” says Jim Mc-

Caughan, chief executive officer of Principal Global Investors.

DRIVING DIVERSIFICATION

Essential for any portfolio, in McCaughan's view, is the concept of di-

FEATURE ARTICLE

versification. "I do think that diversification is a very good way to survive a financial crisis."

Further, he adds, those income-biased or diversified investors who were disciplined about their strategy through the 2008 crisis have actually benefited from the volatility.

In fact, disciplined re-balancing and a clear strategy will be able to help investors take advantage of periods of volatility which might otherwise scare them off.

Principal Global Investors' role in this is not only to offer diversified investment options, but also to diversify the markets the firm operates in.

The strategy in Asia, for example, has been to target the direct-to-customer retail channel through joint ventures.

The firm has partnered with CIMB Bank in Malaysia, China Construction Bank in China, and Punjab National Bank in India.

The approach has enabled the firm to develop a better understanding and local knowledge of strategically-important Asian markets. "Aligning with the distributors has to be part of the answer," says McCaughan.

Because of this philosophy, he is cautious about trying to penetrate such markets independently.

"For us, Asia is a matter of working with our joint venture partners on the one hand, but on the other providing specialty investment capabilities which can help both the advisers and the end-client get the outcome they want," he explains.

While not necessarily innovative as a model in its own right, it has worked

well for Principal Global Investors so far, amid its range of capabilities.

STAYING UP-TO-DATE

Despite its legacy and track record, however, McCaughan is very aware that a focus on core capabilities is not enough in today's marketplace.

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Disruptive forces are coming from technology companies like Alibaba and Google, for example, via models which leverage digital, mobile and social media technologies in various ways.

Notable is the fact that their success is fast and far-reaching.

"These tech-based companies are trusted by the end-client in a way which the banks are not," he says.

In line with this, McCaughan believes they have real potential to shake-up the industry in terms of the way it currently functions.

His priority, therefore, is to stay ahead of these trends and develop capabilities and ways which genuinely appeal to clients.

"There are many interesting opportunities in more niche areas," he explains.

From a fund sales perspective, much of this well-oiled distribution process

involves understanding the individual needs and position of a distributor, and being able to identify any gaps in the bank's product offering given the market environment.

At the end of the day, says McCaughan, investors need various strategies to turn their assets into income, therefore filling a void in the portfolio.

That's what Principal Global Investors' multi-boutique structure is about.

And it is McCaughan's vision to put in place groups internally to target the more attractive niche areas where the firm can add value for clients.

PASSIVE POSSIBILITIES

One area of the markets the firm has not participated in so far is ETFs.

Slightly over a decade ago, when ETFs made their debut in the asset management business, they were primarily passively-managed instruments.

As a result, Principal Global Investors stayed on the side-lines, watching the market develop.

Now, with ETFs exploring actively-managed strategies, the firm is considering its move. "We need to be there, so we are working on what our active ETFs will look like," says McCaughan. ■