Are Asia's independent models up to the task?

An exclusive Hubbis survey of independent wealth managers in Singapore and Hong Kong puts a question-mark over whether this increasingly influential community has the required advisory models and processes to deliver on the promise to clients of zero conflict of interest and consistent performance.

The gradual but steady shift in client assets towards independent (external) asset managers (IAMs) and multi-family offices (MFOs) has seen a clear expansion in the industry in Singapore and Hong Kong. More firms are being set up, and many existing players are slowly growing.

Business leaders in this segment expect the pace of development to continue – possibly quicken. Already in Singapore, for example, IAMs and MFOs on average – at least those which are members of the Association of Independent Asset Managers (AIAM) – are believed to represent 7% of AUM of the private banks.

And some practitioners hope the needle will move so that around 10% (or more) of AUM in Asia managed by 'real' independents in the next three to five years – especially if there is more alignment with the banks as partners, rather than competitors.

However, as the influence of this segment of the industry increases, it is vital to explore the models and processes that firms within this segment of the industry are implementing.

This is especially timely given that the growth in numbers of IAMs and MFOs across Asia has led to multiple business models emerging.

Some firms stick to a rigid approach of not accepting retrocessions, for example; they only charge clients by way of a flat fee, either based on an hourly rate or perhaps a percentage of AUM. This means they have no preference towards the assets the client buys.

According to practitioners who have this mind-set and follow this approach, robust and structured investment processes and platforms are critical to the right type of 'independent' advice that defines their value proposition. They are also required to be able to create the kind of superior, consistent performance which counts in growing the client base, including share of wallet from existing clients.

Key survey findings

But while this approach is becoming a more meaningful part of the industry, there are still a relatively large number of independents who are still akin to transaction-based advisers. This is based on them getting paid via retrocessions and other commission-like incentives.

They might typically lack a defined investment process, and instead simply invest or allocate based on opportunities in the markets.

Some firms even say they have seen 100% growth, and higher.

The majority of IAMs and MFOs which responded to the survey believe that the winning formula stems from a better and deeper client relationship which, in turn, leads to more suitable advice.

According to several practitioners, for instance, the ability to advise clients across their entire wealth without a conflict of interest, and to provide services such as consolidated reporting, is a clear differentiator. Many clients would never disclose all their assets to one bank. Products have never been a differentiator.

"Robust and structured investment processes are critical to the right type of 'independent' advice."

Even if IAMs and MFOs are run by experienced private bankers and staffed by relatively competent and entrepreneurially-minded client advisers, this doesn't mean they have the skills, knowledge or resources to build the kind of offering which can deliver real value.

As a result, the extent to which IAMs and MFOs are able to deliver on their client promises needs to be explored further.

These were among the key take-aways from a survey of the leading IAMs and MFOs in Singapore and Hong Kong.

DIFFERENTIATION – BY PRODUCT OR ADVICE?

Based on the survey of many of the IAMs and MFOs operating in Singapore and Hong Kong, 94% of those which responded claim their client assets have grown by at least double-digits over the past 12 months.

This is based on the fact that all firms play with the same toolbox – all asset classes and most products are available to all firms. Further, how valid is any firm's claim to be able to consistently use the toolbox better than anyone else?

As a result, product differentiation is a concept which is inherently flawed.

IAMs and MFOs can, however, differentiate the client experience by enabling clients to understand their own goals-based investment policy.

This simplifies the investment decision-making process, liberating them from the tedious approach of 'shopping around'; it puts the onus instead on the investment managers to deliver.

Independent practitioners say that the experience for clients of finally understanding 'why' they invest liberates the client from the more difficult problem of 'how' to invest, and the mysteries surrounding products and markets.

Yet by adding a unique investment offering or strategy to the mix creates the ideal combination, say practitioners.

Some IAMs and MFOs are also at the moment looking to develop more of a private market capability. They believe that this asset class is increasing in importance and attractiveness to clients

The top 7 ways for IAMs / MFOs to grow their client base

- *Getting referrals from existing clients*
- *Paying close attention to service quality and ensuring a better client experience than the private banks provide*
- *Delivering superior and consistent performance*
- *Taking a more holistic client-centric approach that focuses on objectives and not the tools to reach those objectives*
- *Introducing clients to third parties which can offer the right solutions*
- *Consolidating assets into a more effective way to view their portfolio*
- *Hiring senior RMs from the banks – and who have a solid book of business*

Genuine independence

Convincing a client that the advice is independent and aligned to their interests is critical to the sustainability of the model overall.

For those IAMs and MFOs which charge a flat fee, the fact that they do not accept retrocessions means that there is no incentive to sell anything.

Their recommendations to clients, they explains, are never 'poisoned' by revenue considerations. Instead, they look to create a relationship of trust by voluntary disclosure of hidden fees and/or returning voluntarily-hidden retrocessions.

This goes even further with those clients who are well-aware of the conflict of interest that exists within their private banks.

As a result, IAMs and MFOs should be 100% transparent. This also includes telling clients which banks the various product and investment ideas have come from.

For some firms, doing nothing but managing client assets is the answer to proving true independence.

However, since nearly half of all IAMs and MFOs who responded to the survey said they get paid retrocessions, the industry still has a lot of work to do.

in terms of returns. Further, one of the survey respondents said that clients are lured by the types of M&A deals which the firm can find for them.

A relatively surprising outcome of the survey, meanwhile, was that very few IAMs and MFOs say they introduce their clients to insurance brokers.

In what is a clear need where a knowledgeable adviser can add a lot of value via needs-based conversations with clients, this should be a more important part of the business for an independent firm.

ATTRACTING CLIENTS

More broadly, industry leaders within the independent space believe that there are certain key components of showing clients why they need to consider an IAM or MFO in addition to – or perhaps to replace – a mainstream private bank.

For instance, as smaller, niche players, IAMs and MFOs cannot hide behind a brand name. Instead, their success depends on having a clear strategic focus which is supported by their value proposition. In short, this means not trying to be everything to everyone.

To implement this in a consistent way, independents must have the appropriate infrastructure and systems.

The firm is then in a potion to explain to a client or prospect the concept of the 'best of both worlds' – a custodian of choice coupled with truly independent advice. Only once this happens can clients fully recognise the common conflict of interests they might face with their banks.

At this point, they can focus on offering a tailored product which outperforms.

Going down the investment comparison route is often a recipe for success, according to some independents.

Justifying the fee

Many IAMs and MFOs say that showing out-performance is the best way to convince a client that the advice they give is worth a fee.

This is the main proof of value, according to practitioners who responded to the survey.

A key element to being able to showing net returns after fees, versus all other alternatives, is for the independent wealth manager to review existing portfolios and point out risks and product characteristics that may not have been properly explained by existing bankers.

Or, these might be investments that the client may have bought on their own initiative, but ones where they were not aware of risks or cheaper alternative products.

This is all rooted in showing the facts and figures, to highlight the costs savings and level of transparency as part of the proposition.

Ultimately, shrewd businesspeople and entrepreneurs understand that quality does not come free. If the service and outcome warrants, then charging a fee is not in question, according to make survey respondents.

This is not about convincing a client – but rather, showing them a potential investment that could be interesting to them and complement their portfolio. Another effective approach is to review the firm's own values and investment

Insights into investment processes

How some of the more forward-thinking IAMs and MFOs have structured their investment proposition:

- *"We have an investment committee, chaired by the CIO. We do a monthly review of our tactical asset allocation (TAA). We believe in buying for the long term and staying the course, so we don't busily reallocate assets and trade excessively"*
- *"We spend many hours with our clients on goal-setting. We seek to quantify their goals in terms of risk and return. We can then decompose the risk profile to three components, craft the investment policy statement and then optimise single portfolio. Then we rinse and repeat"*
- *"We follow a systematic, multi-stage process involving screening, analysis, validation and monitoring"*
- *"We adopt a traditional SAA and TAA approach, tailored to each client's risk appetite. We have relatively low TAA ranges as TAA often distracts from performance"*
- *"We aim for efficient and cost-effective implementation with ETFs, factor exposure etc. We try to avoid over-trading and falling for behavioural biases"*
- *"Our process is exclusively bespoke and bottom-up from the perspective of a client's objective(s), risk appetite, liquidity requirements and investment experience"*

style against the client's needs, source of funds and purpose of their wealth.

The independent adviser can then identify if there is a fit, and if so, which issues the client faces that can be managed.

The process then leads the adviser to try to fil any gaps via specific products or solutions.

Yet all these methods are rooted in the fact that an IAM or MFO must have a well-thought-out investment advisory proposition along with a robust and workable advisory model in order to back it up.

REFINING VALUE PROPOSITIONS

Meanwhile, in addition to the investment component to their offering, as the independent wealth management industry in Asia grows and new firms join this segment, it is becoming more essential for all players to refine their value propositions.

Individual IAMs and MFOs must identify which clients they want to target and what they want to offer them.

Some of the more established players believe that the best approach is to stick to what they do well.

Not being everything to everyone is a simple philosophy, but most likely an effective one.

At the same time, independents need to ensure they position themselves in a way that makes it clear about which services they provide.

For example, when it comes to investment advice, are they fund managers or asset allocators?

Constructing portfolios

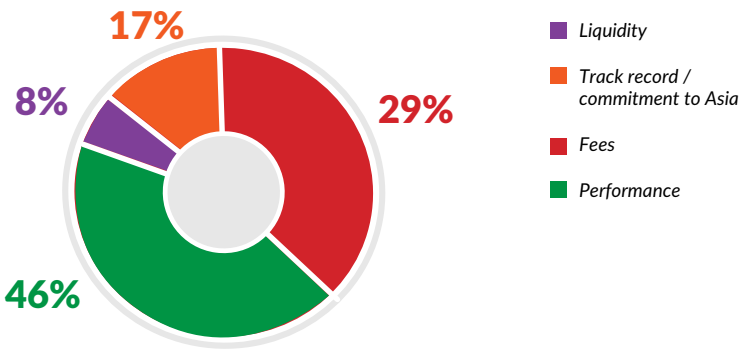
Performance (first) and fees (second) are by far the most important two factors when choosing a fund – at least for those IAMs and MFOs who responded to the survey.

Yet digging deeper, there are other tangible objectives they have when selecting from a product provider one fund or investment over another.

Some of the more common responses include:

- *"We look at historic, risk-adjusted returns, and also at the manager, reputation and management fee"*
- *"We want to either obtain better exposure at similar or better costs to a certain asset class, or we want to better align the product risk with the client's profile"*
- *"Within the same class or sector, we seek quantifiable markers of potential for sustainable alpha. If we cannot find any, we use ETFs. For other products, we will consider products that enable us to monetise tactical views or complement the strategic portfolio"*
- *"For any new potential investment, the question should be: is the risk compensated? If it reduces total risk whilst increasing total return, it's clearly compensated risk. If the enhanced return comes at greater risk, is the incremental risk too much?"*
- *"I look for 'uniqueness' in a deal and whether among, my client base, there could be synergy for these clients"*

WHAT ARE THE TOP FACTORS FOR IAMs AND MFOs WHEN CHOOSING A FUND OR OTHER INVESTMENT?



Source: Hubbis Survey

It is not uncommon, according to respondents, for many clients to see IAMs and MFOs more as fund managers.

However, some practitioners say that the role of the independent industry is to allocate the asset to the best in the investment space.

As a result, this gap in expectation and ability needs to be bridged.

Either way, client focus needs to be core to the value proposition of any IAM and MFO.

Some independent firms do this well already. In the last few months, for example, several firms have started to explore private equity and have set up their own funds.

This highlights the need to be able to offer bespoke solutions.

When a firm can do this, it is by its nature acting in the best interests of clients since by definition the client has 100% transparency over what they have bought, from whom, and how much it costs.

SIZE STILL MATTERS

There also remains a question-mark among many industry practitioners in terms of the size a firm must be to survive in today's environment.

Even some of the boutiques and independent wealth managers are themselves sceptical about the prospects for the smallest firms.

Running a viable business with two senior bankers and a few support staff is to longer really practical – for either the client or firm – given the operational and compliance requirements in today's environment.

Yet consolidation is likely to be a good thing at some stage in this segment.

For example, done in the right, compliant way, the technology and processes needed today are expensive.

There are also requirements for an interface between banks and the independent firm as clients demand more than just a friendly face in the shape of their adviser; they also expect and need substance in analysing their assets and portfolios.

Those independents which have built some scale, along with a structured approach to their client engagement and product offering, are already reporting a pick-up in terms of clients who are looking beyond the brands of the private banks, say several practitioners from the boutique side of the fence.

Further, some of the boutiques say they are also seeing a greater influx of private bankers. ■

Priorities for enhancing the product platform

Some of the more pressing goals for many IAMs and MFOs in developing their investment and product capabilities on behalf of their clients include:

- *Creating joint ventures or alliances with relevant product partners*
- *Offering access to private markets and building co-investment capabilities for their clients*
- *Looking for higher-value, lower-cost opportunities*
- *Enabling technology that can enhance and highlight front-line competence / skill-set*
- *Ensuring ease of process, efficiency and choice*
- *Expanding the investment research team*
- *Providing a more qualitative reporting to clients*
- *Institutionalising the investment structure and clientele*