Being client-focused to breed funds success in Malaysia

Affin Hwang Asset Management is making a concerted effort to move away from the industry-wide approach in the country of pushing product. It is instead focused on starting with client needs, says Teng Chee Wai.

Malaysia's growing asset management industry needs a greater number of differentiated products to encourage investor interest – but at the same time a lower number of funds overall.

"From a distribution point of view, there is a need to reduce the number of funds," says Teng Chee Wai, managing director / executive director at Affin Hwang Asset Management.

"It is virtually impossible to understand every single fund on a product platform if there are 500 funds," he adds.

"When there are too many funds, the focus reduces, which lowers the ability to service the client base."

The signs in the country's asset management sector over recent years point towards things heading in this direction, with the number of fund launches moderating. "This is a healthy trend as it means companies are not chasing sales by launching [new] funds," explains Teng.

Instead, the objective is to have funds that have been in the market for a couple of years and have built a good track record. "This increases the trust of clients," he adds. "That is the new way of managing growth."

And this needs to continue if the industry is able to foster the right type of engagement between distributors and end-clients.

RENEWED APPETITE

At the end of December 2016, 74 fund management companies were operating in Malaysia, manage around MYR696.27 billion (USD385 billion) in AUM.

This has come on the back of fairly consistent industry growth over the last five years, despite a host of market uncertainties in the past 12 to 24 months.

TENG CHEE WAI
Affin Hwang Asset Management

Local authorities are especially keen to develop Malaysia as a leading centre for Islamic finance; in January 2017, for example, the Securities Commission

unveiled a five-year Islamic fund and wealth management blueprint to drive growth in this segment.

To be implemented via a phased approach, it will start by formulating a framework for SRI funds, setting up a global centre for an Islamic capital market and introducing a digital investment services framework.

Such initiatives seem well-timed; risk appetite among local investors is slowly coming back. "Retail investors have stayed away from the market in recent years but that trend is changing. We haven't seen such strong fund inflows for quite some time," notes Teng.

Appetite in Malaysia has typically been strongest for fixed income funds, but there is now greater interest in risk-taking via equities, he adds.

FILLIP FOR FUND BUYERS

Despite the rise in flows, however, mutual funds are still not widely used as a savings and investment vehicle.

This is partly due to relatively low levels of financial literacy among Malaysian investors. But high entry fees also inhibit interest, according to many market participants, with retail clients often needing to pay up to 5% or 6% - often used to pay commission to distributors and their agents.

Such a fee structure has led to product pushing in the past by client advisers.

Yet Teng says this attitude is evolving. "The entry fees have been coming down, partly as a result of intense competition."

At Affin Hwang, for example, there has been a concerted effort to move towards more of a client needs-based approach.

"Our sales agents are trained to approach clients from a portfolio perspective," he explains.

"They ask clients what their financial goals are, what their return expectations and assess their risk appetite. Based on this information, they recommend suitable asset allocations."

It is also easier to manage client relationships this way, he adds, instead of just trying to push the best-performing fund of the past 12 months on them.

Further, advisers at distribution partners are advised not to churn their clients' portfolios constantly – although if they do, they are not charged for it.

"Clients pay a fee the first time they sign up for our services. After that, if they decide to allocate assets within our family of funds, they don't pay any fees," says Teng. "We don't charge a fee for rebalancing portfolios."

This type of more thoughtful approach to selling funds has paid off for Affin Hwang. From an AUM of MYR20 million in 2001, the fund house has close to MYR38 billion in AUA today, from over 55,000 individual, corporate and institutional clients, as well as partnerships with top local and international banks and distribution agents.

KEY PRIORITIES

With this growth, the fund house has now reached a crucial stage of its development. "We are at the point where we are considering if we should remain a purely Malaysian player or if we should expand into other countries such as Singapore or Indonesia," reveals Teng.

At the same time, it is continuing to build its investment capabilities.

"We have always had Malaysian and fixed income capabilities. In 2008, we started to build our Asian fixed income and equity capabilities, which is responsible for a good part of our growth over the past decade."

In addition, among its more specific propositions for clients, it more recently launched private mezzanine lending opportunities for HNW clients.

It has also launched a Singapore residential property fund targeted at investors keen on buying such assets.

"We have received good feedback from our clients about such products, which they view as an opportunity to diversify internationally and reduce correlation between various portfolio holdings," says Teng.

Affin Hwang also successfully collaborated with BlackRock to launch a global balanced fund (fund of funds) for local retail investors.

"We were the first in Malaysia to bring in a retail product with a foreign partner managing the fund. It has got some good traction," adds Teng.

A further priority for Affin Hwang in the near future is building its talent pipeline within the organisation.

"We spend a lot of time thinking about grooming the right talent for future leadership positions. We have attracted a lot of young talent and we want to harness and develop that into leadership capabilities," says Teng. "But it's a long term approach and it's important to be patient with the process." ■