Better benchmarking for Greater China

An expansion push by Morningstar in the region will see the firm bring new products and innovations in a bid to take the lead as an independent investment research content provider.

Given that Morningstar provides tools to ultimately try to help individuals plan, save and invest to reach their financial goals, it isn't unrealistic to think of the firm as playing one of the most influential roles within the global funds industry.

As an independent investment research company, it started off – when founded by Joseph Mansueto in Chicago in 1984 – by teaching do-it-yourself investors and advisers how to pick the most reliable mutual funds. It later moved on to stocks, ETFs and other investments.

Over 30 years on, a key strategic goal for the firm is a concerted push within Greater China with a unique blend of independent advice and products.

Spearheading this new dawn are Nick Cheung, chief executive officer in Asia, and Peter Dietrich, head of business development for Greater China. And they both see enormous potential to advance Morningstar's footprint in the region. "Looking at how we have developed our business [in Asia], it was very different 15 years ago. For the first 10 years, we were more focused on building our business around data and some of the basic fund research," explains Cheung. "Over the last few years, we have evolved our focus, towards bringing our research capability into Asia."

This has seen the firm look to deliver a mix of its research, including equity and manager research, as well as its investment management-related capabilities.

"This will continue to be the driver for us down the road, for the coming few years," adds Cheung.

MEETING INVESTOR NEEDS

This is part of the efforts to more generally build a broader awareness of the firm's global suite of services. This is in line with what Dietrich sees as the needs within the local market – some of which can be served now and others in the near future as they are required. "We partner with organisations and want to continue to do this as part of the whole decision-support mecha-

NICK CHEUNG
Morningstar

PETER DIETRICH
Morningstar

nism," he explains, "whether it be with a private bank or designing a platform suitable for the respective audiences, to asset allocation, to even more guidance for the individuals."

The firm has also invested a lot in the behavioural science field. Since there are so many potential investment outcomes, Dietrich says there is huge potential to change investor behaviour that adversely impacts returns and performance.

Morningstar's first global study to measure how average investors fare in a fund and the impact investor behaviour can have on outcomes, found investors achieved better outcomes when using systematic investment programmes and invested in lower-cost funds.

The study used the Morningstar Investor Returns methodology to derive a dollar-weighted return of a fund that incorporates the effect of cash inflows and outflows from purchases and sales, as well as the increase in a fund's assets. Research drew on preliminary Morningstar open-end mutual fund data from Australia, Canada, Hong Kong, Luxembourg, Singapore, South Korea, Taiwan, the UK and the US. (Findings were released in June 2017.)

During the five-year period through December 31, 2016, the study found that investor returns across the globe varied from stated returns, on average, by a range of -1.40% to 0.53% per year (see box for more findings). "Investors tend not to market time their portfolio which is why the investor returns are often higher in target date products and much lower in higher volatility categories," adds Dietrich.

ADDING VALUE

Regardless of new concepts and products on offer in Asia, it is Morningstar's independence – which has stood the test of time – that Cheung also says is key to its regional growth ambitions.

This is rooted in the belief among investors and advisers that the firm will not favour any single investment or fund manager. "We have a validated, solid global process at the equity research level and a rules-based format for every investible vehicle," urges Dietrich.

Ultimately, a major goal is to help its target audience drive down their overall costs via the series of solutions.

The firm has also brought its strategic beta indices to Asia, adds Cheung. These basically take in Morningstar's equity research from its team of 300 or so analysts around the world. "We are helping people looking at investments from a platform perspective, whether they are platform providers, private banks, insurance companies or others." This involves bringing to the region the firm's manager due diligence through its platform capabilities. "Some firms use our strategic beta indexes for structured products, as well as ETFs and other passive instruments," explains Cheung.

While the structure is agnostic, the firm is taking the qualitative research it distributes on the wealth management side of the business, to turn into a transparent, systematic, disciplined rules-based investment process. This creates a passive investment with an active tilt. ■

The impact of investor behaviour on returns

Highlights of the global study:

- *Investors in Singapore experienced the largest negative investor return gap, at -1.40% per year for the five years ended December 2016. By contrast, investors in Australian superannuation funds benefited from the largest positive investor return gap at 0.53% per year*
- *The investor return gap in the US shrunk to 37 basis points annualised over 10 years from 54 basis points for the 10 years ended 2016, indicating that investors are making less harmful market-timing calls*
- *Investor returns per year proved positive for allocation funds in the US at 0.05%, superannuation funds in Australia at 0.53%, and fixed-income funds in South Korea at 0.47%. These countries all offer investment vehicles with automatic contribution or payment options that keep investors on track and prevent them from unwise market timing moves*