Convincing clients to pay for active managers

An increasingly-common challenge for even some of the largest international fund houses is demonstrating to product managers and investors that active management is worth paying for, says Ajai Kaul of AllianceBernstein (AB).

Just as wealth managers and investment advisers need to prove to investors they add value, asset management companies face a similar challenge with their wholesale clients.

"For us, it is the basic challenge to continually demonstrate to intermediaries that active management adds value and that we can deliver at a price point where the investor receives value for their investment," says Ajai Kaul, AB's head of Asia Pacific ex-Japan.

Indeed, the active-versus-passive debate is upending the investment industry.

Despite there being USD10 trillion invested in actively managed funds, the move to lower-cost passive instruments – especially in the US and, to a lesser extent, Europe, has led to huge outflows across the global active community.

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For example, more than 40% of endowments and foundations in the US said they increased passive investment strategies in the past three years, according to a survey released in June by NEPC, a Boston-based consulting firm with 109 endowment and foundation clients.

TURNING IT AROUND

Like many of its peers, AB has not been immune to such trends, with AUM growth globally challenged by passive equity funds.

Yet Kaul sees a lot of opportunity for investors in Asia over the next six months.

"There certainly a lot of opportunity for investors in pockets of the equity market, such as emerging markets, and even in the bond market," he says.

In line with this, it is all about delivering messages to distribution partners with conviction about these sectors and geographies.

effective communicators in today's digitally-led environment.

News travels especially quickly in an online world where everyone has a smartphone.

This instant ability to communicate, says Kaul, represents much more of a disruptive force than digital delivery platforms – which in and of themselves play a role but are not solely responsible.

"Advisers and investors alike expect asset managers to be proactive and anticipatory in communicating what's happening in markets," he explains, "especially in terms of world events whether they be political or economic, and their impact on the performance of a fund."

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"I am quite optimistic that the next six months of the year will be reasonably good for us as an industry, following a strong first half," adds Kaul.

AB is well-placed for continued growth, given that it is represented across most platforms in the region – including banks, insurance companies and securities house.

In particular, Kaul places faith in proactive distribution partners which seek the firm's products to meet their client needs.

DIGITAL DISRUPTION

At the same time, adding to their burden, asset managers also need to be

This is important; getting your point of view out, given the often instant reaction from investors react to the continuous news cycle delivered through all kinds of means, especially through mobile devices.

AB, for example, has been upgrading its website to deliver more content digitally, and in shorter, punchier formats to cover the key issues of the communication.

While Kaul doesn't think the answer necessarily resides in becoming a robo-adviser, it does in digital delivery and in exploring the delivery of services through all kinds of channels, including robo-advisory.

"This is the rise of another distribution point and we need to think about how to take what we do today through banks and insurance companies, and how we will do it tomorrow, through fast-emerging alternative distribution points," he explains. ■

Regional priorities

Looking around Asia, Kaul says increasing emphasis for AB will be on the onshore Taiwan market, where AB's business has grown to more than USD5 billion in AUM.

The firm is also keeping an eye on China, which has emerged as a slow but sure bet.

The mainland market represents a collective pool of wealth of several trillion US dollars.

And according to Kaul, this is clearly the largest opportunity globally for fund houses, trusts, wealth managers and private banks.

"This is not a market that may deliver results in the short term necessarily, and there are a number of policy and regulatory issues that have to be dealt with," he adds.

"But in time, we are all optimistic that China will be a market in which both onshore and offshore managers will be able to compete on an equal footing," explains Kaul.