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Decoding growth: What next for asset management in Asia?

Michael Levin, Head of Credit Suisse Asset Management (CSAM) in Asia Pacific, talks to Hubbis about the evolution of asset management in Asia going into 2018, the thorny question of fees, the rise of the region's next generation of investors, and the tech opportunity.

THE ASSET MANAGEMENT BUSINESS IN ASIA IS EVOLVING and quickly reaching an inflexion point, according to Levin.

"This is the time for clients to reevaluate their portfolios," he says. "We're entering an environment that has gone from steadily declining interest rates spurring a super cycle in bonds for more than three decades to the potential for a sustained increase in rates coupled with elevated valuations in equities."

Levin stresses that one cannot project how to invest going forward based on the unprecedented magnitude, duration and consistency of the returns in both equities and fixed incomes over the last nine years.

"This is an environment where yields are still relatively low with rates rising and equity valuations that are high on a historical basis experiencing an increase in volatility," he explains. "I think it is the time to start to think about diversifying across asset classes and investment strategies," he notes. To fortify against these changing trends, Levin suggests that clients migrate towards floating rate solutions and thematic equity opportunities.

The way forward

On equities, Levin says that it would be prudent to diversify away from companies who utilised financial engineering and cheap borrowing to facilitate financial alchemy—in buying back stock to increase earnings per share or to increase leverage on the balance sheet to pay dividends.

"Those companies may be penalised over time versus companies in select thematic equities, which benefit from secular growth that drive the ability to generate strong cash flow independent of economic conditions and don't suffer the same negative impact of rising rates."

Levin says that the road best taken for the industry could be through participation in newer growth trends like robotics and the digitalisation of health care with returns that may diverge from the overall market in the long term.

On alternative investments, Levin laments that investors had viewed them negatively based on the relative performance rather than risk-adjusted returns. "That includes hedge funds, private equity and real estate," he says. "Alternatives should play an increasing role in a diversified asset allocation strategy as we look forward."

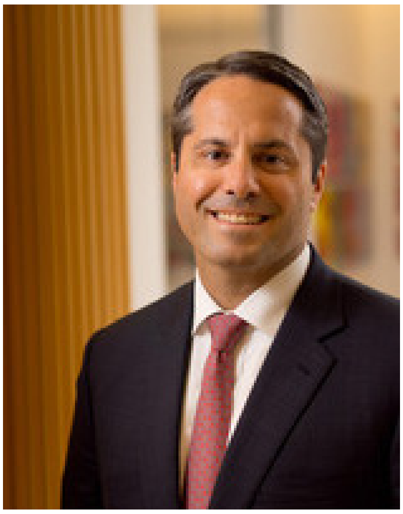
In fixed income, Levin says that one critical area for clients to think about is local currency bonds.

"Last year, we saw the potential for weakness in the dollar and most fixed income portfolios are dollar-centric," he says. "I think dollar diversification is an important theme for investors to consider, and we find Asia local currency bonds to be particularly attractive."

Levin says that within Asia, one must look at India and China. "They are offering yields above 6% with relatively short duration and limited credit risk," he says. "The primary risk that you're taking is currency exposure, and you may benefit by diversifying away from the dollar."

Asia's next generation

One of the more complex questions to answer in the broader wealth management industry today revolves around the next generation of investors. Millennials and their successors, who think



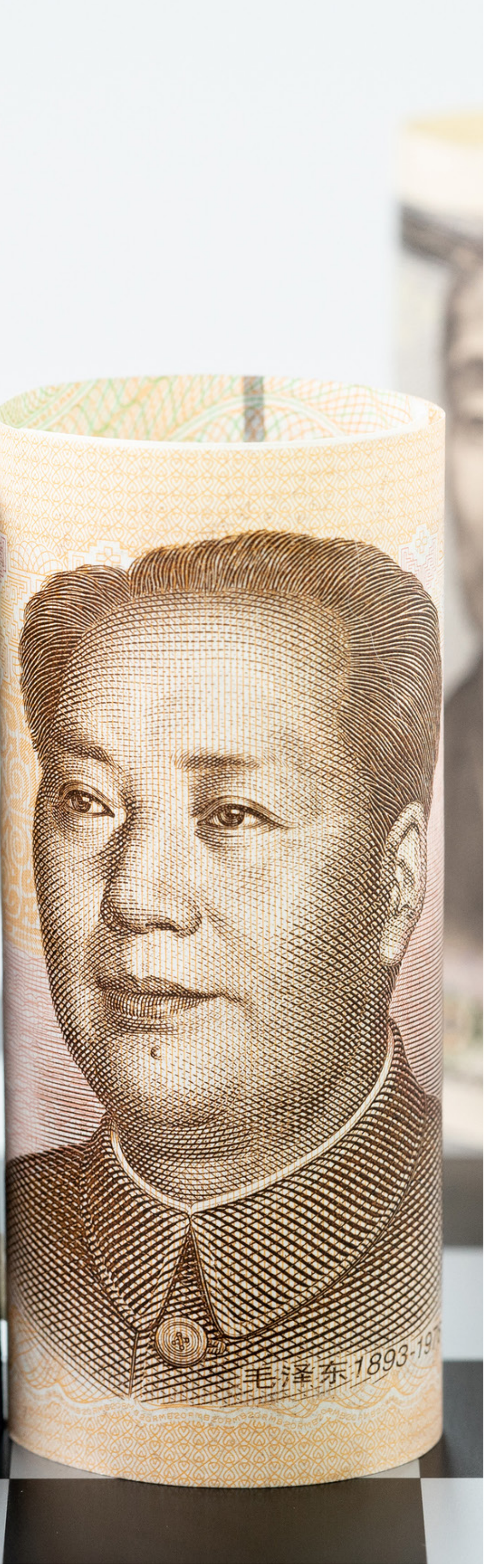
MICHAEL LEVIN
Credit Suisse Asset Management

and act differently to the previous generations when it comes to managing their money, and come with a different set of values.

This has given rise to ESG Investing, a term that refers to the consideration of environmental, social and governance criteria alongside financial factors in the investment decision-making process—which wealth management experts say aligns with the philosophy and worldview of the next generation of HNWs.

Levin acknowledges this evolution but says that the story in Asia is a little different. "I think the next generation means something very different in Asia than it may mean in more developed markets where there's a more seamless transition," he says.

In Asia, there is a significant amount of first-generation wealth which may have a very different view of investing than subsequent generations. "If you are an entrepreneur and you generated massive wealth independently, it's challenging to then shift towards a managed-asset approach," he explains. "What you



see is more control-oriented investments, much more emphasis on direct private equity deals, real estate, individual stocks, and bonds."

Therefore, according to Levin, the current wealth transfer opportunity in Asia is more meaningful.

"Beyond the scale, there is a transition to second-generation investors, who are more inclined to seek out expertise and hold a diversified portfolio of managed assets rather than relying on a DIY approach," he says.

Levin has found that the next generation of wealthy individuals in Asia tends to be much more focused on asset allocation across geographies and investment strategies. Demand for ESG has historically been weaker in Asia when compared to Europe and the US.

"But we are starting to see a change in terms of the allocation to ESG strategies in Asia and I think that will increase over time," he says.

The fees conundrum

On the topic of fees and the issues around transparency and complexity of how clients are charged, Levin says that both asset managers and private banks must be forward-looking in terms of the fees charged to clients and ensure that the value they offer exceeds the fees that clients pay.

"Otherwise, you're not in a sustainable position," he warns.

According to Levin, in Asia, where you've had a transaction fee model, there is a need for transparency into the fees that clients are paying and metrics to weigh the value received relative to those fees.

"I think we're going see a more fee-competitive environment and I don't just mean reduced fees; I mean the value to clients for the fees they pay," he says. "To me, that will be a beneficial environment for everyone; good for clients and good for the asset managers that strategically use fee structures to create better alignment with client needs."

Tech: the challenge and the opportunity

The wealth management industry is also facing a new trend that it is both embracing and combatting.

The rise of fintech firms, especially robo-advisory and "zero fee" trading apps, focused on retail as well as the HNW segment, are disrupting the traditional way of managing wealth globally and in Asia. Levin welcomes the rise of platforms, and what they bring to the table in the wealth management space. "I think platforms are really exciting," he says.

"As much as people talk about fintech from a startup perspective, to me, the greatest potential value in the wealth management industry is for larger firms like Credit Suisse to utilise technology in delivering better solutions to clients," Levin explains.

Solutions, he says, that are tailored to client needs and offer a self-service model to access information, research and investment solutions to more effectively design portfolios themselves.

"We are increasingly going to see mass personalisation," he says. "This means increased customisation of the client experience by leveraging technology for portfolio construction, analytics, attributions, and reporting."

"It will also result in discretionary portfolio management solutions from asset managers tailored to individual client needs at lower minimums," he states. ■