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Dynamic Premia Partners Sets out its ETF and Smart Beta Stalls for Asia

Premia Partners launched its first product just 14 months ago but is already set to burst into the top 10 of ETF providers in Hong Kong by assets. The firm's ideology is to offer investors a vision of 'smart investing', aiming to create a reliable, curated ecosystem that is conducive to ETF investing, optimised with the best technologies, tools, and platform. This all adds up to the bold yet straightforward goal to reshape the landscape for ETFs in Asia.

Executive summary

Hubbis met with Rebecca Chua, Managing Partner at the Hong Kong-based ETF strategies provider Premia Partners (Premia), and with Aleksey Mironenko, the firm's Partner & Chief Distribution Officer. Both are clearly energised by the immense opportunities on offer in the Asian market to expand interest and activity in ETFs amongst retail, institutional and wealth management investors. After just 14 months in operation, Premia is already at the cutting edge of driving innovation in Asian ETFs, aiming to introduce global best practices for Asia and to boost ETF trading in the region dramatically.

Premia is an asset manager whose "raison d'etre" is to fill the gap in Asian equity exposures. The firm's founders saw that so many beta providers in Asia focus mainly on US and European markets and that few providers build products dedicated to the region, resulting in a gap in high quality and low cost beta equity exposure to Asia.

Accordingly, the entire thesis behind Premia is both bold and straightforward, namely that the passive investment industry is far less developed in Asia than in the US and Europe and there are no accurate products available for investors to make very efficient investments into Asian equities. Hence, Premia has in its short life thus far launched four highly targeted ETFs, two for China, one for ASEAN and one for Innovative Technology, with all four listed in Hong Kong. And more are on their way.

At the end of 2018, Premia ranked 11th by AUM and 5th by inflows out of 23 Hong Kong-domiciled ETF providers. Premia is now intent on driving its assets under management from USD170m currently up to far higher numbers. To do so, Premia is set to launch new ETFs in 2019 and is building out its investor base, focusing on a broad range of clients, from retail to major institutional, from insurers to family offices and independent asset managers.

ETF CREATOR AND SMART BETA proponent Premia Partners (Premia) is on a fast-track to growth and prominence. In a mere 14 months of operations from its headquarters in Hong Kong, the firm has built a 20-person team, overseen by four partners, to focus in a dedicated fashion on delivering Asian beta. In addition to Asian beta, Premia partners with WisdomTree, a leading global ETF manager, to offer smart global beta solutions to Asian investors across equities, fixed income, commodities and even foreign exchange.

"We have seen tremendous growth both in the ETF universe and also in the smart beta world, but Asia lags well behind in both these areas," reports Aleksey Mironenko, Partner & Chief Distribution Officer at Premia Partners (Premia). "It is certainly not enough to simply try to replicate here in Asia what works elsewhere; we need to do far more than that."

Rebecca Chua, the firm's Managing Partner says the 'beauty' of Asia right now is it is effectively 'greenfield', unlike the US and Europe, which are dominated by a handful of global incumbents. "This," she added, "gives us a great opportunity to build something that allows investors in this part of the world to invest in the kind of low-cost, efficiently-built best practice ETFs they're used to globally, as well as offer them improved thought leadership on the topic of ETF implementation. It is an exciting prospect."

Mironenko explains that Premia's concept of smart beta comprises factor investing and thematic investing, using a systematic approach that steers away from the pure market capitalisation weighted indexing methodologies.

"The benefit," he explains, "is that in Asia's emerging markets where you have a lot of market volatility and risk on/risk off scenarios, we avoid the broad-brush market capitalisation weighted approach that tends to buy-high-sell-low given its rebalancing mechanism. Instead, based on research, we concentrate on key factors and themes that not only improve the outcome in terms of returns but importantly solve some of the challenges our clients have expressed to us about investing in the region. A great strength is our access to thought leaders around the world including our advisors former Yale Professor Zhiwu Chen, and Dr Jason Hsu, who is also the Co-Founder and Vice Chairman of Research Affiliates. They are leaders in the quantitative finance and smart beta/ factor investing space and have been helping us greatly in the research and understanding of the China A-share market. Moreover, our emerging ASEAN Titan ETF and the Asia Innovative Tech ETF both offer investors targeted thematic strategies to access growth opportunities in the region, without broad brush exposure to less-desired parts of the region's equity markets."

A Great Start - Premia's Four ETF Strategies

Premia offers investors four ETF strategies, all of which are listed on the Hong Kong market. In brief, these include two China ETFs, both offering specific smart-beta exposure, one to the country's traditional economic sectors and the other targeting new economy companies. For both of these, Premia has worked closely with Dr Jason Hsu, co-founder of Research Affiliates.

Chua explains that the Premia CSI Caixin China Bedrock Economy ETF, which is the "traditional" A-share ETF, offers broad exposures, tilted toward value, quality, accounting conservative and low volatility stocks. "This ETF has outperformed comparable MSCI China A stocks and CSI 300 ETFs since its inception just over a year ago," she notes.

The Premia CSI Caixin China New Economy ETF offers access to China A "new economy" stocks and is tilted toward asset-light, accounting conservative and quality growth stocks and has also outperformed comparable alternatives, again since its creation just over one year ago.

Premia also worked with S&P Dow Jones and FactSet to design two other ETFs, one an Emerging ASEAN growth strategy and the other a thematic Asian tech-enabled innovation strategy. "The Premia Dow Jones Emerging ASEAN Titans 100 ETF targets the under-invested ASEAN economic growth region that is outperforming broad EM," Chua explains. "This is the only beta strategy globally offering exposure to the region."

Finally, the Premia Asia Innovative Technology ETF buys into Asian innovator stocks and is, Chua believes, the only beta strategy directly targeting revenue in Asian robotics/automation, biotech & digital transformation sectors.

Mironenko comments that the Premia concept is very straightforward for the two Mainland China strategies - namely to invest in either the broad economy or the new economy, but to focus intensively on picking good stocks and not over-paying for entry.

Meanwhile, the Asian Titans strategy offers broad Asia exposure via ASEAN growth economies giving access to this dynamic non-China, non-India Asia growth story. "And the Asia Innovative Technology offers a thematic strategy to benefit from Asia's transition away from a manufacturing hub to a services and innovation hub for the world," he adds.

The overlay of the smart beta approach means that Premia screens the stocks for the key qualities that the firm believes help stocks outperform in the long run.

"For example," he elucidates, "we don't want companies that are very highly priced, because if they are very expensive now it is very tough for the price to push on further. We want companies that are cheaply priced and therefore offer value. We want companies that have high debt servicing coverage, we like a lot of cash and strong profitability, we focus on businesses that are transparent in their accounting. These are all measurable elements and by simply screening we can exclude those we do not like. Over the long run and based also on academic research and our own experience over the last year these strategies therefore generate alpha."

REBECCA CHUA
Premia Partners

Getting Personal

Rebecca Chua, Managing Partner of Premia, has enjoyed an impressive career thus far. She was born and educated in Hong Kong before completing her MBA at Yale in the US. Her first job was as a corporate banker at Standard Chartered, working under a business head and mentor who helped propel her on the fast track, resulting in the bank funding her Yale MBA. This mentor from Standard Chartered had, by the time of her return after two years, moved to Marsh & McLennan as the Asia chairman, so after one more year at Standard Chartered, she moved to join him at his new firm.

At Marsh & McLennan she ran Asia strategies until the firm's chairman, her former Standard Chartered boss, decided to retire, after which she moved to BlackRock in the APAC portfolio management group, and later joined the ICBC Credit Suisse asset management joint venture as Assistant Chief Executive for the international arm in Hong Kong prior to founding Premia in 2016.

Away from her current role at Premia, Chua is an avid reader. "I am currently immersed in Gavin Menzies' 1421 about the discovery of America by China, it is fascinating."

Growing investor sophistication and demands

Premia is very comfortable in its choice of Hong Kong as its headquarters. "We believe that the ETF market will see tremendous growth and far greater demand from the investment management community here, as well as elsewhere in Asia," Chua reports. "We see that people at first tend to put their financial wealth with the banks, but over time the increasing number of investment firms and also technology firms that have become involved in wealth management and investment management is allowing a lot more people to gain exposure to most cost-efficient, transparent investment solutions."

In turn, this all means that they gradually understand that in addition to putting their money under the pillow or in a bank deposit they can also invest in the capital markets. "As individuals become more financially literate," she notes, "this trend will surely accelerate."

Chua adds that intergeneration wealth transfer is migrating wealth to people who are often of higher education and more financially literate. "The result is that they will generally ask more about what they are buying, they will ask more about how much they are paying and they definitely want to be more involved," she notes. "They are also somewhat self-directed in their portfolios, even if they do rely on private bankers and wealth managers to help with the majority of their private, personal wealth. So that kind of trend we see increasing and we see the key elements are in place that tell us that the ETF growth in Asia would mirror a lot what we see in the US and in Europe."

Premia does not limit its exposures to mainstream indices but works with index providers to adapt to the nuances of the region in response to client demands. "Thus far," Mironenko notes, "a significant portion of our clients are sovereigns, insurers, active managers and family offices who like the benchmarks we have put in place and who are far from satisfied with traditional market-cap approaches for Asia. The indices are designed to offer a specific exposure and/or outperform the market."

Costs are important, as is transparency. "Every product

ALEKSEY MIRONENKO
Premia Partners

we have is charged at 0.5%, and with no other costs added," he explains. "Moreover, there are no performance or other fees. This means that the four strategies we currently promote cost the investors 0.5% per annum and investors can be assured there are no hidden costs. Fees are certainly an area of concern, especially in weaker markets. Moreover, we can say that, not just in Asia but globally, it is harder and harder for active managers to prove that they are able to generate a good enough performance to support the high fees that they are charging, further boosting the appeals of low-cost passive strategies."

China: a natural starting point

"There is a very considerable opportunity for generating alpha in an inefficient market such as China," Chua reports. "For example, our two key China strategies focus on this massive economy where there is strong growth in GDP per capita from a fairly low base. There, we offer two investment options - a broad economy strategy that represents main-

Getting Personal

Aleksey Mironenko, Partner & Chief Distribution Officer at Premia, has enjoyed a diverse and interesting career to date. Born in the Ukraine, he moved with his family to New York during the time of the Soviet Union and the ensuing mass exodus to the West by so many Eastern bloc families.

He spent many of his formative years in New York and went to university at NYU, studying finance and accounting, then later working in a number of financial services jobs beginning with BlackRock, well before it became a Fortune 500 company.

"I enjoyed my client-facing roles at BlackRock across markets such as New York, Tokyo, London, and Hong Kong," he recalls. "In Hong Kong, I ran the iShares institutional business for BlackRock and during that time I met Rebecca [Chua] and we realised there was this opportunity to build a business that was focussed on Asia as opposed to a business that imported global product into Asia."Mironenko recalls that his career at BlackRock spanned a time when BlackRock's international team consisted of a mere 25 people based in New York. "There were few offices globally and as I was in the international client team that meant work with clients in all sorts of wonderful places. I ended up in Asia almost by accident, simply because it was a growth market with so many clients here, but was also drawn by the region's dynamism and variety of fascinating cultures."

Married to an Australian, he has two young children below the age of four. Away from family and work, his passion is rowing, which he enjoys in Shatin and Middle Island, Hong Kong, from facilities operated by the Royal Hong Kong Yacht Club. "The yacht club has the main adult rowing programme in Hong Kong," he reports. "Rowing offers great exercise of course, but more importantly a different perspective a few times a week before work and the demands of the day take over. The club also does a lot of rowing coaching for new rowers and a number of school rowing programmes."

Another passion for Mironenko is travel. "I think I have visited almost 80 countries so far," he reports. "Japan is my favourite, as Tokyo was my first overseas job and that is where I met my wife. It is our home away from home, really, and we love the food, the culture, our friends there, the diversity, for example skiing up north and then the beautiful beaches and scuba diving offered in Okinawa."

Mironenko was also a ranking junior chess champion in Ukraine, before he left for the US as a child. "I actually competed," he recalls, "but as we were refugee immigrants in the US when we moved there, the opportunities were not available to further that. It was more about survival for my family in those days."

Key Priorities

Chua is clear that Premia has one overriding and vital priority, namely, to grow its Assets Under Management (AUM). "That is a given," she says, "but we have two other core priorities that will help us achieve that key goal, namely to build out the product range and to expand our investor base."

Mironenko explains that Premia is aiming to branch out from pure equity ETFs and to build a strong product range in Asia to plug the many gaps the firm sees. "China was an obvious strategy," he says, "because before we launched our two ETFs most of the China ETFs were pure cap-weighted tracking vehicles. ASEAN was also an obvious strategy but looking ahead we note that a lot of investors do not have access to private equity or venture capital strategies, or fixed income or other thematic strategies."

He explains that the other key mission - which will also boost Premia's AUM - is to further expand investor interest and the general understanding of the low fees Premia can offer.

"The problem," he observes, "is that many ETFs for Asia are substandard, and the fees are very expensive, so, for example, the largest China A Shares ETF in Hong Kong charges 1% and that is more in line with the type of fee we would expect from an actively-managed fund. The largest ETFs in the US can cost 5 basis points or even below."

"We have struck a fee of 50 basis points that is far below market out here in Asia," he continues, "so we are of considerable appeal to institutional investors in the region, for example, our initial clients were government entities, insurance companies, family offices and so forth. A key goal this year is to make sure that more and more investors know that these lower cost institutional grade strategies are available and that they can be accessed for as little as USD50,000, as well as being available for far larger investments of up to USD50 million, for example."

In particular, Premia is further building its connections to family offices, independent asset managers and individual investors as well as expanding its institutional client base.

"We are on a powerful growth trajectory," Mironenko adds, "and we want to expand where we are not so well known, especially in the family office and independent asset management community " they are the ones who are most aggressively trying to change how much they pay and how they invest."

stream Chinese stocks across all sectors, and a new economy only strategy, that targets China's transition from old industry laggards to new economy winners. Within both strategies, the index we use employs smart beta to select stocks likely to outperform over the long-run. Since launching the ETFs in October 2017, we've seen them outperform comparable indices such as CSI 300, MSCI China A and ChiNext."

Mironenko argues that there are also several traditional investment reasons for investors to focus on mainland China equities.

"Cheap valuations are compelling as the PE ratio has fallen by nearly 30% in the past year to less than 10 times," he reports, "while the US market is trading at around 14 times. We believe that the returns for our broad China A strategy will be between 5% and 10% over the medium-term, based on a highly conservative set of assumptions. Large inflows continue, and foreign investors will be adding A-shares in increasingly large volumes, at the same time as domestic government policies are pushing retail investors away from unregulated trust products to traditional equity and bond markets."

Additionally, he believes that China's growth potential remains intact. "It is the world's second largest economy and will weather the storms of any trade wars, so not investing in China will mean investors miss out on many great opportunities," he claims. "The diversification benefits are also worth considering, as mainland equities are quite uncorrelated to the rest of the world."

Chua added that China has dramatically further to advance. "It might be the world's second largest economy, but GDP per capita remains less than USD9,000 and the implication of that is that many structural changes are still taking place. The current situation is different from 10 years ago when GDP per capita was around USD3,000. When per capita numbers rise to USD10,000, or USD20,000 or even further, China will move closer to a developed market and because of that the composition and the winners and losers would be quite different from what we see today."

"Not just in Asia but globally, it is harder and harder for active managers to prove that they are able to generate a good enough performance to support the high fees that they are charging, further boosting the appeals of low-cost passive strategies."

Mironenko further explains that this environment and outlook means that Premia's systematic approach allows a clear focus on the factors and qualities of companies that are more aligned with the growth trajectory and the structural changes of the economy. "This means we can give investors a much higher probability to generate consistent alpha."

Broadening his perspective to an ever-wider angle, Mironenko comments that the global institutional investment industry is gradually heading towards a China allocation more aligned with China's contribution to global GDP.

"That," he says, "means going from their current low single-digit exposure to double-digit or even up to 20% to 25% in the next 10 or so years. That is simply a huge transition and represents a truly massive amount of capital going into the Chinese market. There is a lot of room for alpha generation by taking a more disciplined approach during this evolution."

A team for the future

To conclude the discussion, Chua also highlights the vital roles Premia's two other partners play. David Lai and Laura Lui are the co-CIOs and together with Mironenko and Chua form the four leaders of the firm.

"We believe we have a really strong team that can take the business forward quickly," she comments. "We have a lot of experience amongst us and we can move straight ahead with the implementation of our ideas and that allows us to move ahead at pace and rapidly fill the gaps that we see in the market. After just 14 months, we are already now number 11 by assets in Hong Kong out of 23 ETF providers. We aim to keep that momentum and to hopefully crack the top five ranking by the end of 2019." ■