How heavy competition is helping the funds industry

Intensifying competition is changing the dynamics of the asset management industry in Asia – and that's a good thing, according to Credit Suisse's Michael Levin.

Intensifying competition in the product manufacturing industry will ultimately improve the standards of the players involved.

"We believe competition is beneficial as it elevates the level of quality in the industry and leaves no room for complacency in delivery," says Michael Levin, head of asset management, Asia Pacific, for Credit Suisse.

There are some specific positive outcomes of this. First, it ensures that clients get the best solutions that are most relevant to them. And secondly, it forces industry participants to become more focused in understanding what their value proposition is and whether they have a competitive advantage in the products and capabilities they offer.

A trend which Levin says has been rather detrimental to the industry in recent years has been the supermarket-shelf approach.

The aim has been to put as many products as possible on a platform rather than offer curated solutions for clients.

But with growing market uncertainty and dispersion of fund performance, distributors need to pay more attention to due diligence. They also need to better identify and deliver the best solutions to the clients with the appropriate level of advice.

Moreover, cultivating deep relationships with dozens of providers is inevitably challenging.

Not surprisingly, distributors are slowly opting to cut the number of product partners they deal with.

"Fewer partners means forging deeper and more strategic relationships, while ensuring they are the most relevant to the business," explains Levin. "They can then be utilised to offer the best services to clients."

MICHAEL LEVIN
Credit Suisse

In line with this, he believes the business is at the right stage of evolution. "Over time, competition and product rationalisation result in both higher quality products and better service."

PASSIVE POWER

There are some other big trends transforming the asset management industry in Asia – including increased allocations to low-cost, passive products.

"That sets a benchmark for performance expectations and gives investors a clear delineation between beta, which you don't have to pay a premium for, and alpha, which is worth paying for," says Levin. "In addition, the bifurcation between passive and active, beta and alpha also hold managers to higher standards, which I think is very productive."

"We made great progress in 2016 and third-party distribution will continue to be one of our areas of focus," explains Levin. "We have signed up several new distribution partnerships, while remaining selective."

The firm chooses partners it thinks it can work with most constructively and add value to their platforms. "Most importantly, we can leverage the insights of what clients need and want from the proximity to our own private bank, and offer them to third-party distributors to help deliver value to their clients."

Expanding the third-party distribution network remains a key component of the fund house's growth plans for 2017. But building a distribution network is one thing; managing them is quite another. The key to ensuring partners stay satisfied, Levin adds, is after sales service. "I think service requirements have increased significantly at every stage, whether it's communication of capabilities, investor education, product support, etc."

Pricing matters as well. "The increasing prevalence of low-cost, passive solutions dictates that you have to price wisely. Asset managers also need to be candid about setting the right performance expectations versus the risks involved, so that clients understand their investments completely." ■

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More specifically, this allows investors to assess whether managers who charge premium fees are really worth paying for.

Other factors which are shaping the funds landscape include the increasing transparency, more client-friendly terms, an increasing use of technology in disintermediation, and more bespoke solutions. "To me, those trends make the markets more efficient and serve our interests over time as well," adds Levin.

OPEN TO THIRD PARTIES

While Credit Suisse Asset Management has the ability to partner with its private banking unit, bulking up third-party distribution has been a priority as well.

Other goals for 2017

The strategic priorities for Credit Suisse Asset Management for 2017, remain broadly in line with those in 2016. "We have four basic priorities," explains Levin. "These are: effective servicing of our existing clients; delivering innovative investment solutions that are relevant in the current environment; developing and enhancing distribution coverage across geographies and client segments; and adding value to our strategic partnerships, which are with ICBC in China, HDFC Asset Management in India and Kimco, a Singapore-based hedge fund manager for its Japan long/short equity fund."

Despite the competition, fee pressures and product rationalisation measures underway, Asia remains a region brimming with opportunity.

Yet most investors are significantly under-allocated. "When you look at the global picture and ask investors where they are allocating money, you'll find they have increased allocations to developed markets," says Levin. "But if you ask them where they would prefer to invest – geographies with high valuations and low growth prospects or moderate valuations and high growth prospects, the answer is different.

"We see China as being particularly attractive on the risk-reward spectrum on the equities side, while India is compelling for both equities and fixed income. These are markets where clients don't have exposures that are appropriate for diversified portfolios. We want to help bridge that gap."