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Investment

Products, Platforms, Distribution and Technology – What Next in Asia?

A high-powered gathering of 15 eminent asset managers and investors, along with private bank gatekeepers and distributors, assembled in Singapore in early December at the invitation of Hubbis and our exclusive partner for the event, Allfunds. The mission was to analyse recent and emerging trends in the distribution of funds and investment products in Asia. The experts cast their collective eye over the evolution of the market, exchanging ideas on the opportunities and challenges ahead in 2020 in terms of products, asset classes, countries, strategies, and distribution practices. They also discussed how both new technologies and digital platforms, as well as further liberalisation, should help to boost the market itself and their overall proposition. Most importantly, they agreed that more accommodative regulation, greater customisation, greater customer-centricity, and broader financial education will be required so that the investment market in the region can realise its potential in the years ahead.

The key takeaways

What was hot in 2019 for Asia HNWIs? Fixed income, first and foremost

Guests concurred that fixed-income investments amongst the typical private bank clients in Asia had been very robust, for some guest surprisingly so, given the remarkably low yields.

Risk appetite might resurface in 2020

Looking ahead to 2020, guests predicted that conditions are generally positive for a return to risk assets. Although the world remains uncertain politically and geopolitically, investors have grown comfortable that this is now more structural and persistent.

A strategic focus on the big issues is essential

Product creators must take a tactical approach to the market, to engender thought leadership discussions, and to help guide the advisers and end investors to strategic thinking about their future and tailor products that fit.

Taking the CIO-directed high road

In 2019, there was greater attention paid to investment led by the CIO view, and also more and more distributors began to reduce the number of fund houses they work with, preferring fewer strategic partners and then promoting their products and views.

Alternatives require more time to gain impetus

Although demand for alternative assets of all types increased in 2019, the market needs more education on those assets and how they fit within sensibly constructed portfolios.

Tough for the fundamental players

Active asset managers had a tougher time in 2019, as during times of easy money and ongoing QE, it is very difficult for bottom-up managers. Many need to think beyond their current approach and apply their skills and product creation capabilities to a wider range of assets and strategies.

Vital to stay nimble in uncertain times

Asset managers must become a bit more agile, improve their ability to devise new solutions and to imagine new solutions for the end-clients.

Liberalisation will help in Asia

There is little doubt that liberalisation, especially in tightly controlled markets such as Indonesia, will help expand the overall market for onshore products, assuming, that is, the regulators see eye to eye with the industry, which is not always the case. The industry must continually encourage them to see the bigger picture.

Customisation will help boost the proposition

The very specific needs of the end clients must be well understood both by the distributors and the product makers, in order to more directly customise solutions that fit the needs of Asia's HNWIs today, and tomorrow.

The convenience factor is increasingly central to the proposition

People in all walks of life are ever more used to convenience, for example, searching for information online, or through voice-controlled data sources, or purchasing financial or any retail market products. The same convenience factor must permeate the world of wealth management.

Digital solutions will boost engagement and convenience

If the industry wants to reach more clients, and to engage with them more successfully, and more holistically, digitalisation must be embraced throughout, from the front to the back offices.

But technology is no quick fix, it is a long-term commitment

Anyone who thinks digitalisation is a quick fix and forget is truly mistaken. It is an ongoing financial and managerial commitment to change and evolution.

Expanding the market - the greatest priority, and the biggest challenge

It is, of course, essential to work out how to boost the market share of products, or the manufacturers, but what is absolutely critical for all parties is to grow the overall investment market across Asia. To do so, the key players need to actually work together with all the different moving parts of the wealth management industry.

And education is vital, too

Part and parcel of this drive to grow the overall market, education of the distributors, the regulators, the end-clients is critical. Without that, the market will not diversify into new assets, new strategies, new thinking and will not fulfil its potential.

THE DISCUSSION TOOK PLACE ON AN ENTIRELY OFF-THE-RECORD BASIS so that the guests could express themselves openly and off valuable insights throughout. Allfunds itself was represented by David Albeniz de Perez, Regional Manager for Asia, based in Singapore, who also jointly hosted the event and offered some on-the-record comments and insights during the proceedings.

The attendees represented a veritable who's-who of top-flight asset management names such as AXA Investment Managers, Aberdeen Standard Investments, AllianceBernstein, Amundi Asset Management, BlackRock, First State Investments, HSBC Global Asset Management, JPMorgan Asset Management, PIMCO, Schroders, UBS Asset Management and Value Partners.

After de Perez had greeted the guests and thanked them for joining the gathering, he gave a brief overview of the firm (see below: 'Allfunds: Spreading its Platform Practice Far and Wide Across Asia Pacific'), and then handed the floor to a guest to set the scene, inviting him to comment on trends in distribution in 2019, in other words what products and strategies, for whom, and why.

As to these areas of interest, a guest reported that, surprisingly, the fixed income side had been the strongest performer for his firm in 2019. "We actually began 2019 with a big book of multi-asset and equities that we were very constructive around, but then switched more to fixed income as we saw flows going that way."

2020 – More risk appetite?

"But in 2020, he said his firm sees a likely move back towards risk-taking. "Why?" he pondered. "Because trade tensions and all of the macro headwinds are now viewed as structural and persistent, and actually investors have become more comfortable with that, so we see more risk assets, certainly in the second half, but hopefully even the first half next year."

The Head of Wholesale for a major banking group concurred with this view, noting that while equities had a good year in 2019, fixed income flows dominated in Asia.

"We, in fact, remain very positive on fixed income going into next year, while risk remains on the sidelines for investors, although we have actually moved to neutral on equities from underweight. Politics in the US will need to be watched carefully, but all the macro pointers are towards a conducive environment for risk-taking."

Take the strategic approach

He observed that there is a trend towards a more strategic approach. "For us, for example," he explained, "we, therefore, try to not just be a product provider but also share thought leadership and insights, with the aim of keeping the messages simple. We have what is essentially a guide, or a map that any advisor can use to have focused conversation on the bigger issues with their clients. We have a similar one for alternatives and a similar one to talk about retirement."

Another senior guest from a global asset management group noted that 2019 had been reasonably positive for their business, especially for higher-fee products, and away from passive strategies. "We saw strong demand for fixed maturity funds in Asia in recent years," he added, "but of course that results later in a big hole to be filled when they mature, and that is already starting to happen as we launched the first such product a couple of years ago."

He also highlighted the considerably higher prominence of investment led by the CIO view, and that more distributors are starting to reduce the numbers of fund houses they work with. "They are tending to pick a couple of strategic partners," he explained, "and then offer an extended range of businesses with them, so that is a challenge

on our side, to become a strategic partner with these large clients."

He added that as an asset manager, it is both a blessing and a curse to have one big client. "It is nice to have certain guaranteed fee income from that client, but the clients have become a lot more demanding, so with this trend we tend to have a weaker negotiating position."

Another expert agreed with the views expressed and added that there had been solid interest in the region in Asian fixed income. He added that interest equities and multi-assets might rise again because yields in fixed income are so low.

Alternatives – more traction required

"We see a little more demand for alternatives," he reported, "but that is good and bad. People are talking more about alternatives, but don't really know how to position the investment portfolios, how to select alternative solutions. On the other hand, it is a huge opportunity to educate clients, particularly frontline, and then partner with key distributors and see what strategies will fit which customers."

An active asset manager reported that conditions have been tough for the firm as a very bottom-up manager. "During times of quantitative easing it is very tough for managers like us," he remarked, "so we had to diversify quite a bit outside of the core equity franchise, especially in fixed income."

He added that his firm is trying to think more outside of the box, trying to sell more through other asset classes, including fixed income, alternatives, multi-asset and so forth, but also to see internally what we can offer to clients from a solution perspective.

Staying agile

"For example," he told the assembly, "earlier today I just met up with one of our key distributors to see how we can offer a portfolio solution product we have in the UK but here in Asia. As we are heading towards more of a fee-based kind of model with distributors, one of the things we could offer is separately managed account and to actually bring that platform into Asia for the type of lower tier, premium banking segment clients. In short, we are aiming to diversify and to become a bit more agile with our business, to improve our ability to read in between lines, to upsell, to define and create solutions for our clients."

The discussion turned to the prospects for further regulatory liberalisation for offshore assets around the Asia, especially ASEAN region, with a guest highlighting the considerable opportunities, both in working with local partners, for example in Taiwan or Thailand, as well as the value of creating some onshore structures, for example in for distributors in Indonesia.

Another attendee noted that with all its distribution force based in Singapore and operating in the region on a fly-in, fly-out basis, Indonesia is a relatively low priority compared with other countries in the region, for example Thailand or Malaysia.

Talking up the market

"Regulation there in Indonesia needs to be much more progressive, for clients to invest more in offshore assets," he observed. "The opportunity right now is rather limited. We have a good relationship on the institutional side of the business with many of the central banks in the region, so as we see things, it is valuable to talk to them about the trends that we have seen with their peers in ASEAN, and how liberalisation can help to hopefully develop the domestic market, otherwise it all heads to offshore centres, for example often to Singapore."

Focusing on Thailand, another guest reported that their business had been growing robustly there, buoyed by the vigorous wealth creation there.

Partnering across the region

"Thailand is, of course, less mature than Singapore or Hong Kong," she noted, "so the opportunities there are plentiful but of a different nature. Our Thai partners are looking for opportunities to partner on asset allocation, not just purely fund sales or fund push, but on a variety of partnership opportunities. They are also very advanced up there in the digital space, so they are looking for asset managers to actually partner with them, to co-develop with them in the digital space."

The importance of platforms continues to grow

The discussion moved on to the role of platforms, at which point David Perez de Albeniz, Regional Manager in Asia at Allfunds, gave his perspective. "First," he explained, "not all platforms are the same, so what we consider a platform is a distribution platform, a facility that allows investors and the fund managers to meet."

"Aladdin, for example, is a huge add-on that many distributors and fund managers are adopting. At some point either Aladdin develops a trading facility that allows them to actually take the whole chain, or we join forces, because what's the point of going through 20-years of pain and trying to sign 800 distribution agreements. So, I think that's where we are heading. Super apps are another avenue that I think we will be visiting more and more and seeing how we can be the engine behind them for those to be accessing the mutual funds."

Perez then looked ahead to the evolution of Allfunds' position in the Thai market. "I would like to see our contribution evolving in the next couple of years," he said. "Today you see the local fund managers working with a myriad of custodians, which might be inefficient, so at least we should be in the middle, connecting to all those custodians, and this will likely result in larger AUMs to be raised. Another hope is that the insurance companies are more open to include offshore funds in their unit-linked, not through a local asset management company but through the bare product which exists in its origin."

Customisation – a key mission for all

Speaking then concerning the challenges facing private banks in general, a guest noted a key trend he had witnessed in partnering with clients to achieve customisation.

"It is all about really looking at what their specific needs might be, and then trying to address those through a solution or solutions that suit them. One of the other trends we have seen in this competitive landscape is the demand for customisation, for example, alternative solutions where a distributor has a specific need to diversify but has very stringent liquidity concerns, so we then deliver a solution that really fits their need for certain liquidity that their salesforce and their clients can tolerate."

Behave yourselves...

"The regulator probably needs to step in and demand certain boundaries and regulations are in place to ensure that wealth managers act more in the interests of their client than for their pocket," he added, "because obviously at the moment in the current setup there is incentive to churn the book, which by definition can't be in the interest of the client. The combination of advisory contracts, and retrocession-free product or share classes is definitely a step in the right direction, but there could be better solutions."

Another expert advised that the clients today increasingly see convenience as a major differentiation. "People want to make their investment side much more convenient, like their normal lives, so the private bank that gets that right, the ability to streamline kind of the operational processes and streamline the KYC and AML and all of those areas has a lot to gain, and as relationships consolidate to fewer private bank relationships, that will help their position. Additionally, I agree that the ability to have much more of a wholesome relationship with a client, if a private bank can crack that as well as winning in terms of convenience, there is money to be made."

Engaging with the clients

"It is slightly different in Asia, due to the trading mentality of the clients here," came another view. "So, even as a private banker if you are more to long-term and strategic in the approach to the relationship, it is more difficult. Yes, the longer-term investment in client education is taking place, trickling over from Europe to Asia, changing regulations and fee structures and so forth, but the client engagement piece remains the greatest challenge."

The discussion shifted then quite naturally to the wealth industry's ongoing digitalisation.

Digital solutions

"The digital landscape is evolving so fast," a guest observed, "but less so than expected perhaps in the field of robo-advisory, where, as a result, we anticipate consolidation, with only the most successful firms surviving. For the wealth industry, in general, we are seeing the move from more of a commission-based model to a fee-based model, and that changes the nature of the way that clients buy and as a result the way that distributors sell. We would love to see much more of a push towards that fee-based model such that you can drive more of the flow into model portfolios, and as we see things, that is certainly where digital solutions will have a major impact."

He highlighted how his firm's platform aims to provide open architecture solutions, or closed architecture solutions, or a combination of both.

Another attendee noted how his firm had made strategic investments in some fintechs and robo-advisory firms to keep tabs on the development of new

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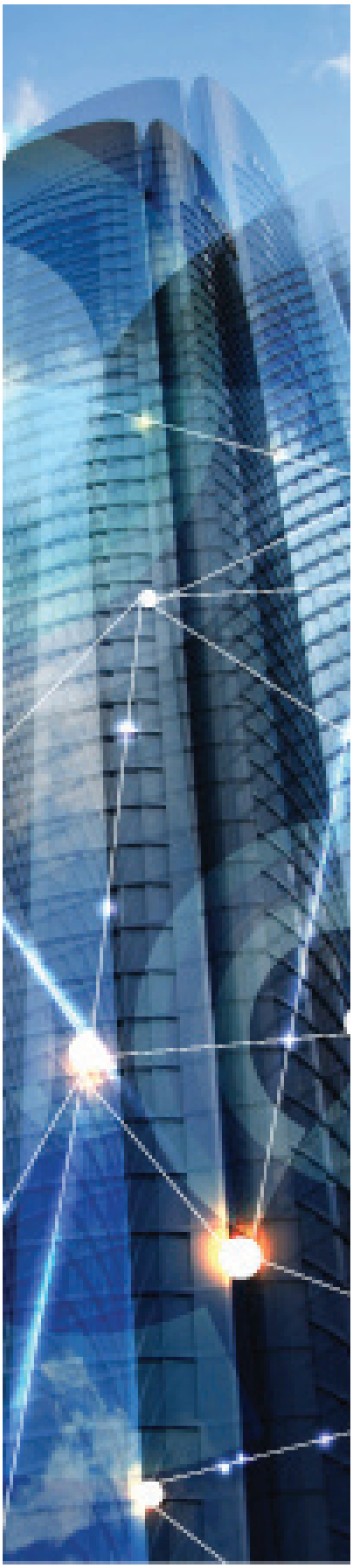

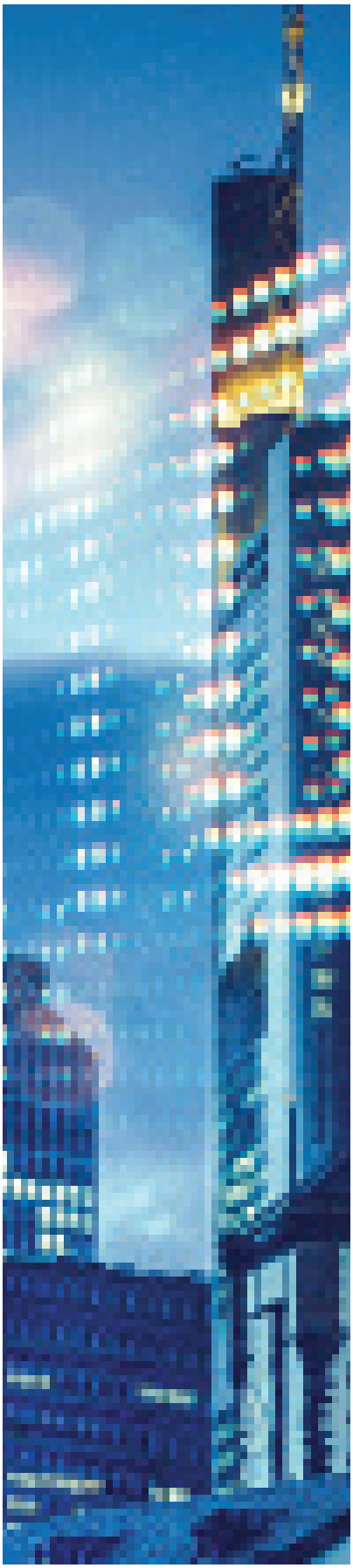

technologies and applications. "The learning path for us has been worth the strategic stake investments," he reported. "We recognise that technology is really moving fast, and we, as asset managers, need to have our finger on the pulse and be part of that ecosystem going forward."

Tech – a long-term commitment

"Agreed," came another voice, "and we also recognise that the gains need not necessarily be short term, as definitely for the longer term, digital technology is something we actively embrace this, and apply it throughout the firm from internal automation to marketing and so forth."

"We are definitely working on that," said Perez. "We have a large data team we created as of mid-2019, and we are putting all the data into the cloud. The first thing that we are going to be focusing on has to do with rebates, but the second stage is precisely that behavioural tracking. And for this to be really beneficial for you, we need somewhat of a joint effort with the distributors to capture end client data points."

He concluded that, in the end, the objective is to help the asset management community find the right product and the right fit. "We want to be able to help you come up with the right product," he reported. "That is our aspiration right now, and that is where we are trying to focus considerable effort."

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The representative of what he described as a smaller asset manager compared with some of the global behemoths represented in the room, said that his firm has to leverage resources, so, for example, making use of a platform is highly valuable. "The platform has data," he noted, "well, we don't have a big data team like some of our peers, so smaller asset managers such as us we can mine that data to gain insights into investor behaviour and help with our idea generation."

The discussion drew to a close with guests discussing the major challenges and opportunities they see ahead in 2020.

An asset manager guest remarked that what concerns him most is lack of control over the end customer. "We realise that many of the younger generations will not bank with their parents' bankers," he observed. "As asset managers, how can we own the client eventually? That's what keeps me awake nights, the way that we have been doing business with such reliance on the distributors."

Another guest agreed, commenting that as yet there is no answer to that conundrum. "Frankly, it is a work in progress," she conceded.

"Both the challenge and the opportunity are encapsulated in the need to expand the overall market," said one expert. "We can talk a lot about how to increase market share, to bring more to the clients than we already have, and by 'we' I mean us the product manufacturers and also the distributors. But for all of us, I think the real deal is how to expand the overall size of the market."

He noted, for example, that some banks in Singapore have been progressively, and successfully bringing ultra-high net worth solutions to HNWIs, and then through to the emerging HNWI category, and then through to the retail market, all with the help of technology.

"That is an example of how we all need to think about these things," he stated. "We ourselves are an integrated group, dealing with customers from institutional to retail, so we are able to think along those lines, but here I am talking about this more as an industry-wide effort because for all of us I think what is most important is to expand the market. That is the key challenge, and also the main opportunity."

The final word was on broadening flows from a handful of rather concentrated bets, to flows into very good capabilities that so far have not really caught on. One of those is ESG, which a guest described as a critical gap to be filled.

"For ESG to really work," she said, "people need to understand more about it and how fits in into the overall framework of what the asset managers are trying to do. I think there are lots of opportunities for more bespoke customised strategies that are tailored, for example more customised retirement solutions to really solve longer-term client needs. The goal is to be more outcome-oriented, and deliver the combination of safety, income and growth." ■

Allfunds: Spreading its Platform Practice Far and Wide Across Asia Pacific

Allfunds is today the world's largest institutional fund distribution network, describing itself as a global marketplace where fund groups can reach world-class financial institutions across more than 50 countries.

Manoj Prajapati, head of sales for the region, reports that Allfunds is the leading European B2B platform, working with more than 1,550 fund managers and offering over 84,860 funds that are accessed by 660 institutions through 50 different countries. In 2018, Allfunds processed some 14 million trades, all automatically and with no manual intervention.

"We help financial institutions to scale up their business without increasing their infrastructure and costs," Prajapati explains. "With our open architecture we do not favour any funds or any providers, we favour best of breed solutions for your end customers. You have optimal products to offer with lower cost and considerably greater ease and speed."

Prajapati reports that although Allfunds only fairly recently began to ply its trade in the region, the firm has already garnered significant volume of what the firm terms assets under intermediation. The growth is dynamic, he reports, because wealth management firms in the region are at such a positive inflexion point in terms of their development and therefore often seek out the value proposition that Allfunds offers.

"We have huge experience," he says. "We are non-conflicted; we are all about the facilitation of the mutual fund industry. That really complicates the distribution channel and let's not forget that in today's world everything revolves around cost," he observes.

And that is where Allfunds also adds value, as digitalisation is not only front office, it is about trying to streamline your middle and back office and that is where we play an important role, to make thing efficient so that tomorrow when you want to leapfrog, you want to increase your operations, your services, then you don't have that bottleneck or a traffic jam that might impede growth."

Prajapati sees wealth managers today spending much of their time working out how to add value to their clients and to do that they need to access and provide the best products in the timeliest manner. They are often impeded, once having selected a fund, by know-your-client (KYC), by due diligence requirements and so forth. Those factors cause delays, create client frustration and generally cause a lack of immediacy and responsiveness.

He maintains that the Allfunds platform removes many of these headaches by connecting electronically to the service providers, fund managers and financial institutions who, through what he termed a seamless platform, can access the myriad of funds available. Importantly, all this can be achieved without the need for multiple due diligence and operational steps.

And the platform also provides the latest data and information the relationship managers (RMs) need to be most effective. Wealth management advisers clearly do not want to go to the website of each and every local or global fund manager to get information, they do not want to be opening an account with each and every transfer agent, they do not want to conduct the due diligence on each fund.

Allfunds aims to make all these steps dramatically more efficient. The mission is therefore to help the wealth managers execute and communicate to their clients rapidly, efficiently and constantly facilitate information and price data flows. As Allfunds handles the account segregation, the platform helps clients mitigate risk and ensure ease of audit and compliance.

Importantly, Prajapati also notes that the platform operates within the bounds of the regulatory framework of each country so that clients can be assured that all activities comply with their local and international regulations.

Finally, there are for Allfunds' customers four different levels of connectivity. The simplest is plug and play, where Allfunds' clients are given access to the website on which they can go ahead and start trading. Then there are three higher levels of integration and sophistication available for clients.

Prajapati concludes by remarking that the funds on the Allfunds platform are not only international, they are also local and regional funds. "As I said, we have got something like 1,475 fund managers and through one single agreement our wealth management clients can access them seamlessly," he reports. "You can thereby bring products quickly to your clients and help them offer the right choice without spending too much time on paperwork and on legal agreements." ■