It pays to be different

Stand-out products and a good client experience are key to thriving in an intensely competitive industry, says Mozamil Afzal of EFG Asset Management (EFGAM).

The relentless pressure on fee income and continuing flows into passive investments is changing the dynamics of the asset management industry around the world.

One of the obvious consequences is that smaller active managers who don't have stand-out products are exiting the market.

And the pressure will continue, predicts Mozamil Afzal, global chief investment officer of EFGAM globally and chief executive officer of its UK business.

As a result, fund houses need to adapt to survive. "You have to show clearly differentiated products and investment performance that delivers alpha," he says.

In line with this, Afzal says EFGAM has proactively taken steps to adjust to the changing environment. "We have lowered the fees on our products in some cases, but we have also focused on differentiating ourselves in the market," he explains.

The firm has also made it clear that it will stick to its active roots.

PASSIVE CHALLENGE

This approach is different from the approach of various other product manufacturers who are reacting to the demand for passive products.

Some of the bigger players in the industry are jumping on the bandwagon and launching their own line-up of index products, for example.

The mid-sized active asset managers, meanwhile, are struggling to cope with the pressure of increasing passive demand coupled with sliding fees.

However, the biggest impact seems to be on the smallest active asset managers, which are opting out of the business. Adding to the challenges is the fact that several private banks are starting to rationalise their product platforms. They are trimming the number of partnerships they have.

MOZAMIL AFZAL
EFG Asset Management

The private banking arm of EFG International, for instance, of which EFGAM is also a part, is doing the same.

"This pressure in itself is leading to some of the boutiques to shut down," adds Afzal. "Previously, private banks didn't mind supporting boutiques but now they are less happy to do so."

NEW DEMANDS

What private banks increasingly want nowadays from their product partners, is a wide enough product range.

Afzal says these institutions are no longer content with one or two products from each fund house; instead, they are looking for six or seven for the relationship to be meaningful and sustainable.

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For EFGAM, however, Afzal believes this all represents a huge opportunity. While the firm's scale isn't huge, with fewer competitors there is more room for growth.

SURVIVING IN ASIA

In Asia, the group has a funds distribution team based in Hong Kong, from which it has four funds registered for sale locally – a US growth fund, a global bond fund, a China equity fund and Asian equity income fund.

In Singapore, the firm's funds are targeted towards accredited investors, so the prime distribution channel is private

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Further, in the case of the large Swiss private banks, Afzal says there is an extra requirement: they need to ensure they can offer tax transparency for their client base, so any fund that comes on their platforms needs to offer that.

In Europe, in particular, tax transparency requirements across multiple platforms is becoming critical.

Size also matters. Distributors are no longer keen to pick funds that have less than USD100 million in AUM, adds Afzal. For the bigger banks, he says the entry ticket is about USD300 million in AUM. No wonder, then, that several

banking or independent asset managers and family offices.

Afzal believes that to survive and thrive in the asset management business, apart from outperformance, it is also important to continually enhance client experience. "One way of improving this is by communicating regularly," he says. "One of the ways in which we do that is by providing timely updates of macro-economic views and strategies. By providing such information, we are helping clients make sense of what is going on in the markets. It leads to better education and more informed clients." ■

2017 goals

EFGAM is planning to consolidate its range of funds in 2017, as its parent company continues to digest the acquisition of BSI.

"We have launched 12 UCITS funds to date, and there may be a few more launches in 2017 – a Japan fund, an unconstrained fixed income strategy and, possibly, European credit," says Afzal. Event-driven strategies also look interesting from an investment perspective.

Geographically, he says his team is closely following updates on Singapore's initiatives to boost the mutual funds industry.

Earlier this year, the city-state's regulator said it would introduce an open-end investment companies framework for mutual funds, which is expected to encourage more funds to be legally domiciled in Singapore.

Another initiative is to enhance the external fund manager programme, under which private sector fund managers can manage a portion of the reserves with the central bank.

Regionally, another interesting development for EFGAM is the proposed ASEAN funds platform, similar to the UCITs platform in Europe. "If we could passport funds to Thailand, the Philippines or Malaysia, it would really improve the investment climate in Asia substantially for the asset management industry," adds Afzal.