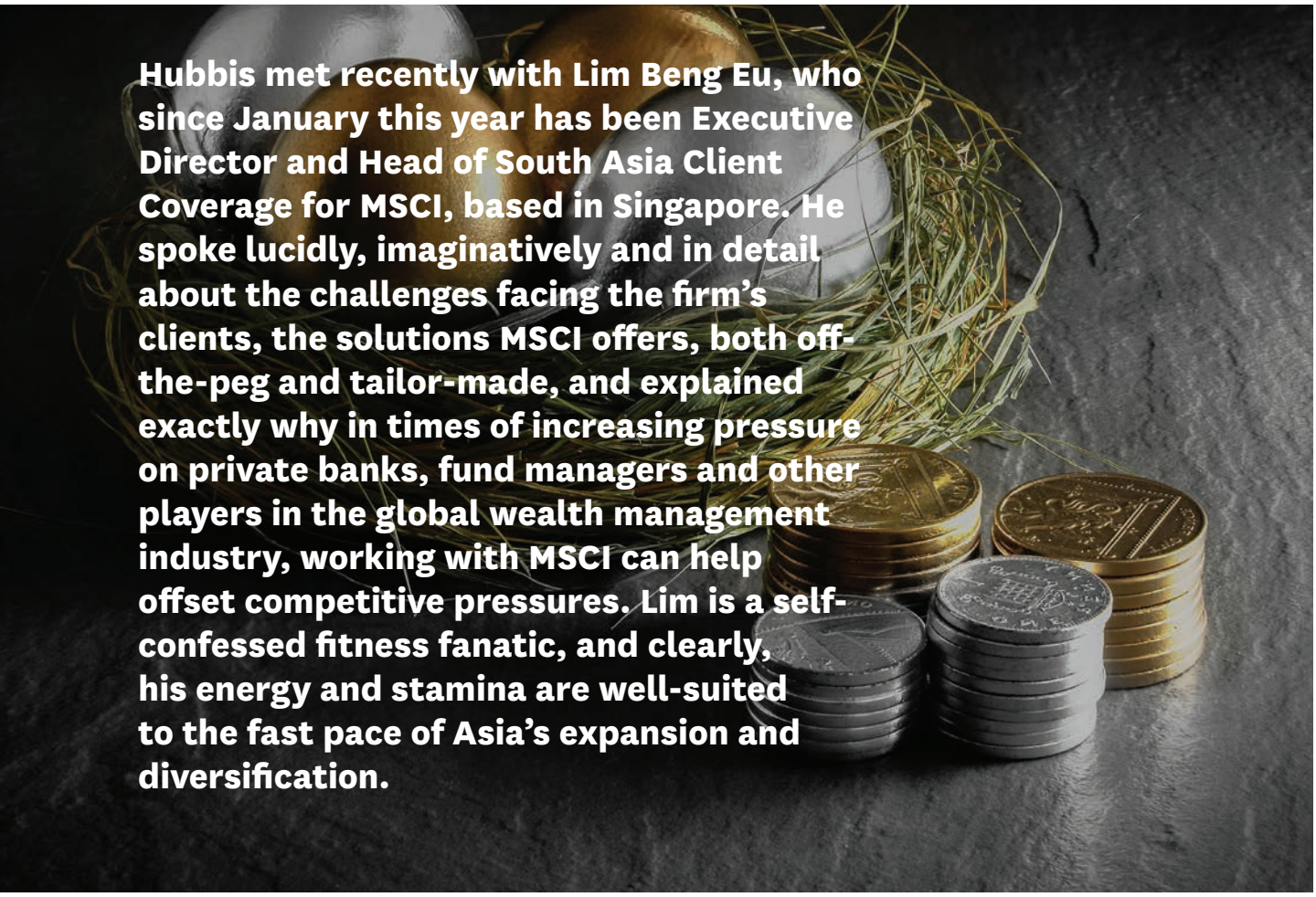
Link to Article on website

MSCI on Keeping Asia's Wealth Management Community Fit for the Future



Hubbis met recently with Lim Beng Eu, who since January this year has been Executive Director and Head of South Asia Client Coverage for MSCI, based in Singapore. He spoke lucidly, imaginatively and in detail about the challenges facing the firm's clients, the solutions MSCI offers, both off-the-peg and tailor-made, and explained exactly why in times of increasing pressure on private banks, fund managers and other players in the global wealth management industry, working with MSCI can help offset competitive pressures. Lim is a self-confessed fitness fanatic, and clearly, his energy and stamina are well-suited to the fast pace of Asia's expansion and diversification.

FOR MORE THAN 45 YEARS, MSCI'S RESEARCH-BASED INDEXES and analytics have helped the world's leading investors build and manage their portfolios. MSCI focuses on four areas of research, namely index, analytics, real estate, and ESG is the fourth area, which is developing very fast indeed.

He reports that MSCI currently serves 98 of the top 100 largest global money managers, according to a P&I report. "We support the advisory and investment selection processes by looking at fund and portfolio robustness through a factor lens, market scenarios, structured products analysis and then, finally, impact and sustainability assessments," he explains. "We provide tools and services that help to empower clients to make better investment decisions by delivering customised solutions for our clients."

Better information, better insights

These solutions help the clients better understand investment risk and return, so ultimately it gives them more confidence in their investment process and greater trust that they are building optimal, efficient investment portfolio"

Lim explains that MSCI can do this to great and sustainable commercial effect because it has the data, the research protocols and expertise, and is independent as well as unbiased. "We are neutral," he reports. "We have no aim to compete with our clients, we have no ambition to provide financial advice, we don't want to manage money."

Lim sees some key issues that the wealth management space faces in the coming years. "In a rapidly evolving world or industry there are more and increasingly complex opportunities," he observes. "Our tools are increasingly useful, therefore, whether supporting portfolio construction, or fund selection or manager due diligence. In this environment, the end clients need better solutions, so the private banks and advisers have to offer that, so they come to us for support. In an era of digital disruption, they also need to be able to deliver these solutions faster and more seamlessly, or they will lose out to the FinTechs."

The impact of ESG

Another key area that MSCI emphasises is ESG. He notes there is a growing body of research to indicate that ESG factors are correlated with higher company valuations and profitability. That

Lim's key priorities

"We have a great client list and very good client relationships," Lim says, when assessing his key priorities for the next year or two in the region. "But having said that, we can always get to know the clients better. Our goal is to be a partner to these clients, to understand the growing complexities facing them, whether they are a sovereign wealth fund, a pension fund, a central bank or an asset manager. So, we need to understand them better, in order to come up with solutions that they demand or need, and to ensure that these solutions, these products are able to deliver the kind of return that they seek. So, we want to work even more closely with clients."

Lim observes that as the industry globally is clearly facing cost pressures, resulting from and resulting in fee compression, there has been the resultant consolidation on the buy side, as asset managers try to achieve scale, to offset the cost pressures.

"This has become more acute over the last couple of years, but the cost pressures coming at the time when the fund market is not growing make for added pressure, so when we work with our clients, we try to empathise and aim to offer the best pricing, of course. However, this all offers us an opportunity, as these clients know that when facing a tough competitive environment, they need to enhance their customisation, their offerings, and their expertise. Our tools help them do precisely that. Improved returns combined with better risk mitigation is a powerful combination."

He concludes the discussion with a reiteration of the MSCI ethos of information and insight-driven decisions. "In an ever more complex world that moves ever faster, we seek to empower our clients with compelling ideas and insights," he says in closing. ■

LIM BENG EU
MSCI

is because there are ever more fund managers and the providers of those funds who are ever less tolerant of corporate ESG failures.

The United Nations Principles for Responsible Investing has grown to over 1,900 signatories representing almost USD82 trillion in AUM, up from USD10 trillion in 2006. There are several trends underpinning this growth. There is more scrutiny and understanding that emerging ESG risk factors may impact performance and what was previously unmeasurable can now be measured and rated. There is more ESG data and more accurate assessment of ESG performance is possible.

"Wealth holders are today asking different questions," Lim comments, "especially the Millennials who will control much of the wealth in the years ahead. They want to better align investments with their values, they hope they can align ESG to improve their long-term returns while managing risk. They worry about climate change and want to try to reduce risks there."

Getting Personal with Lim Beng Eu

Lim was born and raised in Malaysia and later completed his undergraduate degree in economics, majoring in accounting and computer science at Monash University in Australia.

"I have always been client-facing in my career," Lim reports, "and I greatly value this role and the relationships I have built across several institutions over the years, namely Vickers Ballas, which was later merged with DBS Securities and became DBS Vickers, and with the UK's Prudential, now named Eastspring, as well as Aviva Investors and State Street".

Lim is married with three girls aged 21, 17 and 12. "Social and relaxing time," he reports, "is spent trying to achieve a reasonable balance between family, friends, and personal time."

A football fan and lifelong Liverpool supporter, he says he was delighted they won the European Champions League in 2018 and notes that he actually attended the game in 2005 when they beat AC Milan in Istanbul. "A real highlight of my life," he states, jovially.

Fitness is important for him, so he stays fit enough to run marathons and even compete in triathlons. "I did my first marathon when I turned 30," he reports, "and that was a real milestone for me. My best time was 3 hours 30 minutes in Macau when I was based in Hong Kong, that was back in 2000. That was weather assisted, because as you know it is so much cooler there than running outside here in Singapore, that is already a roughly one-hour disadvantage in this heat and humidity." ■

A flagship product

MSCI's flagship ESG rating research product, MSCI ESG Ratings, is fast becoming the standard for ESG ratings globally, much like the major brand name credit ratings agencies are the standard for rating borrowers and their obligations. The firm has ESG Fund Ratings that looks at funds based on the ESG qualities of their portfolio, providing greater ESG transparency for more than 32,000 equity, fixed income funds and ETFs globally.

"Here in Southeast Asia, for example, is a hotspot of environmental issues," Lim notes, "and there is growing emphasis on corporate governance. While this is a global issue, we can see here how it all affects our daily lives, for example, the haze caused by the open burning of agricultural and of course rising sea levels, a topic raised

recently in the Singapore Prime Minister's National Day address."

Lim explains that MSCI's focus in its ESG rating process is two-fold. First, the firm is looking to assess corporate risks from an Environment, Social, or Governance perspective that could affect the enterprise value and of course the share price. And secondly, MSCI seeks to understand what the management is doing to control, to improve or to mitigate this risk.

Lim explains that its research shows how on average, companies with higher ESG ratings typically tend to show better characteristics in terms of investment and better financial performance, as well as also a higher dividend yield, yet also on the flip side typically they avoid the downside risk.

"There seem to be fewer incidences of the share price being affected by either idiosyncratic tail risk, or any systematic risk," he elucidates, "so from our perspective, we can argue that ESG provides risk mitigation premium, while on the other hand companies which score lower on the ESG ratings typically exhibit higher cost of capital and increased volatility in the share price."

But MSCI is also aiming towards an increasingly holistic view, rather than a siloed approach.

Bringing it all together

"We have our four lines of business; index, analytics, ESG and real estate," Lim elucidates, "but we increasingly view all these areas and the solutions together to build integrated or bespoke solutions for our clients."

For example, with regard to real estate, the shopping malls, logistic warehouses, hotels, office buildings and so forth, MSCI has conducted a study for London, overlaying data with climate change data and, for example, being able to assess which buildings or areas will be impacted by rising sea levels.

"All of this is essential information to real estate investors, in London, Singapore, Bangkok or wherever," he adds. "Armed with better tools and insights, better decisions will ensue. This fits with the broad and growing awareness of the need to invest sustainably or ethically, and hence private banks and wealth managers increasingly understand the strategic imperative of differentiating themselves, to stand above their peer group."

Looking to the future

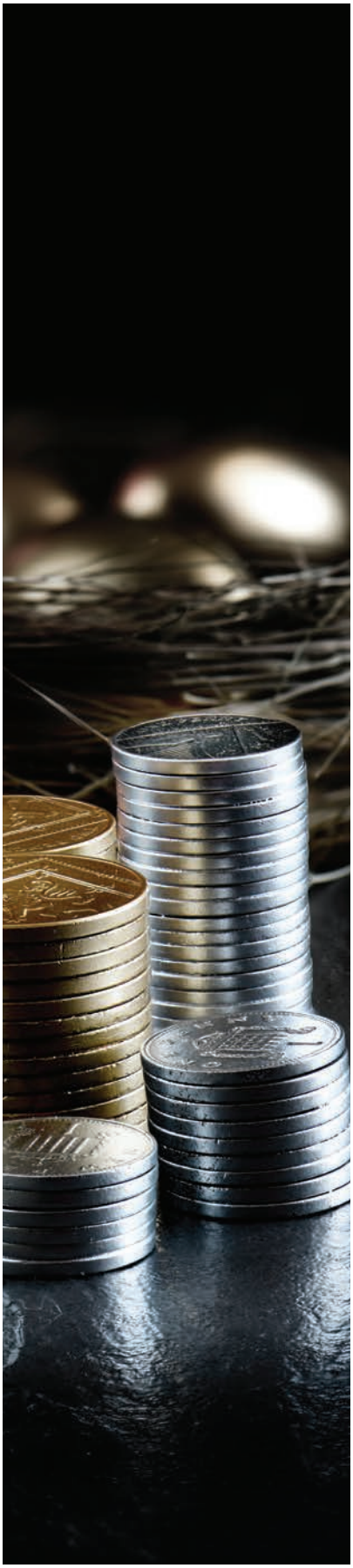
He explains that MSCI continues to focus on its own evolution and is therefore very future-centric.

For many years MSCI has divided the globe by market capitalisation as one way of helping investors invest globally. "But we have all moved beyond that now," he reports, "because there is an increasing challenge in the market for fund managers to deliver alpha from market cap investing, hence the migration from active to passive strategies amongst investors."

Accordingly, he explains that MSCI is looking more holistically at the market risk factors. "We believe that certain factors are more persistent over time," he explains, "so we look at the companies not just on market capitalisation, but increasingly qualitatively, so this includes the ratio of ROE, the valuations, the dividends, momentum, and volatility. The persistence in these stock-specific factors helps determine selection, and therefore performance."

Hitting the right notes

Lim adds that following this same theme of future-focusing the



research and data, MSCI in 2018 launched its mega-trend indices.

"Here," he reports, "we look at trends that are gaining traction or issues that people are talking about. So in 2018 we had four, namely the ageing society, cyber-security, robotics and efficient energy, all real trends that affect how people are looking at the world now and over the next 10-20 or more years. We can then screen companies to see if they meet a certain threshold or exposure to these four trends and then add them to an index representing the trends that we are seeing."

And this year, MSCI has focused on five other trends and the resultant indices - smart cities, the digital economy, future mobility, disruptive technologies and the millennials index, the last of which tracks how they consume and invest.

MSCI is also constantly working with clients to develop various customised solutions. One such example was working with DBS Private Bank in 2018 on structured products linked to an MSCI ESG index for the Emerging markets in Asia including China. This was well received, according to MSCI, and the firm have continued to help our clients develop new products linked to MSCI indexes. ■