

Navigating the Digital Frontier: Exploring the Evolution of Fund Management in Asia

Wout Kalis, Head of Asia Pacific for Broadridge Asset Management Solutions, and Steve Knabl, Chief Operating Officer & Managing Partner of Swiss-Asia Financial Services, examine the opportunities and pitfalls facing firms looking to scale in Asia's fast-moving and digitally driven fund management industry.

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WOUT KALIS
Broadridge Asset Management Solutions

Considering the extensive experience you both share in Asia, how have you seen the regional fund management landscape change over the years?

Wout: The Asia-Pacific fund management landscape has undergone a profound transformation, maturing, and evolving in ways that mirror the region’s dynamic economic growth. In the early 2000s, alternative investments were largely driven by long-short equity strategies. However, the space has since broadened and deepened across a wide array of strategies such as multi-manager, volatility, and arbitrage as well as macro players.

There’s also been a remarkable shift from an era where international firms introducing Asia-focused strategies

were the principal players. Today, we are seeing a significant rise in the number of larger Asia-based fund managers operating in both private and public markets to gain a competitive edge. These Asia-based fund managers thrive not just domestically but are also expanding their footprint to a truly global stage.

Steve: We’re witnessing an interesting dynamic in the Asia-Pacific fund management landscape. An increasing number of managers with experience in larger shops are venturing out to establish their own funds. They’re leveraging their extensive expertise, expectations, and proven track records to launch considerably larger funds than we typically saw in the past.

The complexities of striking out alone have led to the emergence of regulatory hosting platforms as a preferred option for many of these managers. Platforms provide a supportive ecosystem, enabling them to focus on what they do best — generating alpha — while reducing operational and regulatory burdens.

Moreover, there’s a growing trend of “first-loss” capital guarantee funds entering the scene from the United States. These funds commit to covering initial losses, guaranteeing performance to other investors. This novel approach is stirring up the market, particularly among larger funds, and has introduced a new competitive dynamic.

In a broader sense, we’re seeing an evolution of investment strategies driven by investor demand, regulatory changes, and technological advancements. The confluence of these factors means that the Asia-Pacific fund management landscape is continually evolving, making it an exciting time to be part of this industry.

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STEVE KNABL
Swiss-Asia Financial Services

Asia's emergence as a global fund management hub shows no signs of slowing. What are some of the most common challenges you see managers facing as they look to scale in this market?

Wout: Over the years, the Asia-Pacific fund management sector has exhibited a clear shift towards greater autonomy and entrepreneurial spirit. However, when these managers seek to scale their businesses, they often overlook the operational intricacies involved in managing their own funds.

Having witnessed various fund launches, I've found that many fund managers undervalue the importance of comprehensive operational support, taking for granted the resources that larger entities have to offer. Upon striking out on their own, they soon realize the magnitude of responsibilities tied to maintaining robust operational infrastructure that can withstand deep scrutiny from investors and regulatory bodies.

In response, managers often look to outsource tasks such as middle-office operations to large fund administration providers, assuming this will take care of all their operational needs. However, a manager may find that a standardized product falls short when an investor requests a custom report or when there's a need for specific data pull at short notice to comply with a regulatory request. This highlights the critical role of continued internal oversight and data management, even when tasks are outsourced.

Many fund managers struggle to integrate multiple instruments into a cohesive solution that truly meets

their needs. When selecting technology, they opt for cheaper, simpler options that may forgo the all-important risk management and monitoring systems or functions that help funds align with regulatory and compliance requirements which are critical for business continuity.

My advice, especially for those just starting out, is to invest in a comprehensive, scalable system that evolves with your business. Broadridge's Investment Management Solution exemplifies such a system. Providing a seamless front-to-back-office solution enhances operations, trading, portfolio management, risk management, and compliance functions. With a bundled solution, managers can consolidate data handling, streamline reporting, and access insightful visualizations all in one place from the get-go — getting to market faster with greater confidence.

Steve: Among the first hurdles confronting fund managers thinking of striking out on their own, or setting up new satellite operations in Asia, is obtaining the necessary regulatory licenses to operate — a task that has gotten more demanding as regulatory expectations have sought to raise the standards of the industry. Acquiring these licenses involves putting together a clearly defined and comprehensive business plan, backed by a skilled team with a track record of experience spanning several domains.

Recognizing these requirements, many have chosen to establish their operations in financial hubs like Singapore and Hong Kong by leveraging hosting platforms such as ours where they can assemble teams and develop their business plans more effectively. However, obtaining the license is just the beginning. Without a robust technology framework, raising institutional capital and scaling in such a competitive industry is simply not possible today.

In my experience, traders tend to prioritize trading technologies that allow them to trade and manage positions, inadvertently pushing reporting, risk management, operations, and compliance into the background. This oversight can lead to complications, as the current climate of heightened regulatory pressures and evolving investor expectations mean that maintaining clean, accurate data that empowers traceability is paramount.

Swiss-Asia's transition to Broadridge's technology platform was a strategic response to these demands as our platform grew to host more complex strategies of

funds in the region. Broadridge's scalable solution continues to grow with us, facilitating seamless integrations with our partners. This system empowers us to handle tasks independently, reducing reliance on external support, and enabling us to seize growth opportunities in the fast-paced Asia-Pacific market more effectively for our managers."

Looking into the next decade, where do you think technology innovation will have the biggest impact on the industry? What will this mean for managers?

Wout: In the fund management industry, technological innovation — propelled by breakthroughs in AI, blockchain, and cloud computing — is swiftly transforming the operational landscape. These advancements are revolutionizing everything from workflow automation to data analytics, driving faster, more precise decision-making, reducing operational costs, and optimizing client service.

However, fund managers need to remember that digital transformation is not simply about integrating technology into operations: it's about fostering a people-centric approach. It's about training and upskilling our workforce to work in harmony with these technologies, nurturing an environment where human intuition and experience coexist with technological advancement. The true measure of success for fund managers in Asia, and globally, will depend on their ability to leverage technology while staying people-focused, thereby capturing the full spectrum of advantages offered by the digital revolution.

Steve: The financial sector has been buzzing with the transformative potential of technology for years, and more recently there have been substantial shifts that hint at a faster, more transformative wave on the horizon. One area I am personally watching closely is the advancement of blockchain and tokenization. These ground-breaking technologies are democratizing access to alternative investments, enabling a broader base of investors to participate in opportunities traditionally reserved for large institutional investors. This is fostering a more inclusive, diversified investment ecosystem in Asia, and globally.

Simultaneously, these technologies are simplifying and accelerating the flow of data between funds and their critical stakeholders, including administrators and investors. I have big hopes for the disruption that could take place in the reinvention and streamlining of traditional channels of data exchange. This efficiency is crucial in an industry where timely, accurate data and the seamless transfer of information can mean the difference between profit and loss.

Let's be clear, technology is not a silver bullet. It's a tool that, when used effectively, can enhance operations, facilitate better decision-making, and improve investor relations. The challenge lies in striking a balance: leveraging technology to drive growth and improve services, while maintaining rigorous compliance standards and prioritizing data privacy and security. That's the careful dance that fund managers must master in this digital age. ■

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