

# Patience paying off

*Capital Group is sticking to its long-term, results-oriented investment mind-set as it looks to further its Asian growth strategy via relationships with a small but significant group of distribution partners in the region.*

Although Asia represents just USD13 billion out of Capital Group's global AUM tally of over USD1.5 trillion as at 30 June 2017, the US investment manager has a clear vision of why the region is important to its overall growth.

This started to take shape back in 2012, when the firm made the strategic decision to build out its non-US business.

on US offshore business out of New York and Miami. Specifically in Asia, the firm wants to build greater diversity in terms of its book of business.

The need for this is reflected in the current AUM split. Around 95% of AUM comes from US investors, with just 5% accounted for by non-US investors. "As part of this build-out we have been

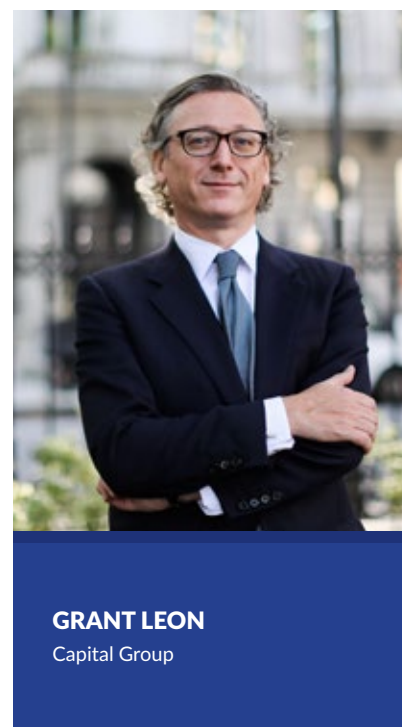
---

**"For global banks, it's going to become harder for them to offer their clients a different type of share class structure in Asia compared with in Europe."**

---

It identified nine priority markets for the distribution of Luxembourg funds to financial intermediaries – six in Europe, Hong Kong, Singapore and one focused

hiring sales people in each of those priority markets, as well as investment specialists and client services staff," explains Grant Leon, global head of sales



**GRANT LEON**  
Capital Group

for private wealth and fund distribution. Yet the Asia business is by no means small. Across the region, Capital Group employs more than 260 associates, 10



**CHRISTIAN LEGER**  
Capital Group

product development. “We are now having a number of these types of conversations, both in Singapore and in Hong Kong, with a relatively small number of clients but very significant ones that we are now working with,” says Leon.

In a world that is generally moving from open to guided architecture, the training and education element will likely be key to developing partnerships going forward.

#### **A CLEAR MISSION**

The firm is also adamant in maintaining its narrow but selective focus. “We want to improve people’s lives through suc-

heart of what we believe we’re good at and where we think we can add the most value,” he adds.

Thirdly, Capital Group prides itself on having a truly long-term investment perspective. For example, the firm bases a large chunk of compensation for its portfolio managers and analysts on eight- and five-year rolling investment results, without any consideration to the AUM of the individual fund.

At the same time, the portfolio managers typically have ‘skin in the game’. Explains Leger: “The vast majority have a significant portion of their own money

portfolio managers, 44 analysts, three economists and macro-economic professionals, six China specialists and 10 traders – working in offices in Tokyo, Hong Kong, Singapore, Mumbai, Beijing and Sydney.

#### **PLAYING TO STRENGTHS**

The Asia strategy is a mix of supporting global partnerships that the firm already has in place, as well as winning new business.

The targets tend to either be global banks or dominant local and regional financial intermediaries. But within these three categories in Hong Kong and Singapore, Leon says the firm only wants to work with a small number of clients in each of those categories.

“We want to build up proper partnerships with those organisations,” he adds. This means having broader conversations, for example about training and

successful investing, and we believe that because asset management is the only thing we do, everything is centred on that one objective,” says Christian Leger, business development director in Asia.

There are several features of the firm’s structure and strategy that lend themselves to achieving its goal.

First, explains Leger, is being privately held, which allows us to focus solely on our clients and avoid short-term thinking.

Secondly, the fund house is a pure active manager. “That goes back to the

invested in our funds.” The firm has combined these aspects of its culture to support the delivery of professional financial advice.

“This is how we built the business in the US, by working with financial advisers, private banks and wealth managers to form proper partnerships,” says Leon.

“Particularly in periods of market volatility, it’s really important for clients to have someone hold their hand through that period. That’s why as an organisation we only distribute our funds through financial intermediaries and not directly to the public.”

---

**“Being successful in the recurring-revenue business is at the heart of what we’ve been doing ever since Capital Group was founded.”**

---

## LONG-TERM SHIFT

While a more conservative player than most of its peers on the one hand, an important trend is likely to play into Capital Group's hands – the impact of regulatory changes like MiFID II in Europe.

Leon believes that fund penetration will inevitably deepen in Asia over time as a result of this and similar developments. "This will continue to lead to many local, regional and global players moving from rebate-paying share classes to clean-fee share classes," he explains.

"For global banks, it's going to become harder and harder for them to offer their clients a different type of share

environment where prices are coming down and costs are going up.

"It's harder and harder to make money as an asset management company if you are medium-sized," he says.

Indeed, having meaningful relationships with the right types of distributors in the wholesale space in Asia certainly requires scale, in his opinion.

"The ability to run large pools of assets over many decades consistently is very appealing for private banks."

Further, private banks increasingly value recurring revenue as an important factor when developing their product partnerships. "Being success-

---

## **"We're bringing some of our retirement income solutions and target date solutions to certain markets outside of the US."**

---

class structure in Asia compared with what they do in Europe," he adds. Such a structural change will result in less advisory and more discretionary business, he predicts.

## ALL ABOUT POSITIONING

At the same time, the consolidation sweeping the global asset management industry is potentially a benefit for Capital Group too.

Leon believes this is just the "tip of the iceberg", with lots more to come. But as a result, it shines the spotlight even brighter on the need for scale, in an

ful in the recurring-revenue business is at the heart of what we've been doing ever since Capital Group was founded," adds Leger.

At the same time, being relevant is key to what he says the firm brings to its distributors. For instance, while there are lots of strategies that the firm doesn't bring to the table, such as narrow thematic mandates or highly-illiquid investments, the funds it does focus on aim to meet broader, long-term needs of the end-investor – preserving wealth, retirement and children's education. ■

## **Sticking to the core**

*For Capital Group, being focused extends to the product offering, too; the firm's AUM is divided across around 30 different investing strategies within equities, fixed income and mixed assets.*

*Yet this still caters to different types of clients. For example, the range is about delivering objective-driven solutions. And this is being added to the international mix. "We're bringing some of our retirement income solutions and target date solutions to certain markets outside of the US," says Leger. This is part of a broader strategy at Capital Group to introduce more of its most successful investment strategies from the US to Asia.*

*In the past two years, for instance, it has created four new Luxembourg-domiciled UCITS funds to replicate some of its most popular US funds. The first of these was the New Perspective Fund in November 2015, followed by Investment Company of America in May 2016, then New World Fund in October 2016 and, most recently in June 2017, AMCAP, a US equity growth strategy. AUM across these four vehicles is now up to USD3 billion – about one-third of which comes from Asia.*

*This approach further reinforces the Capital Group philosophy of being long term. Launching entirely new funds to tap into trends that appeal specifically to Asia would just be a response to short-term market. "That's not really important for us," says Leon. "We're building a long-term business."*