

Regulation and thinning margins up ante for fund managers in Asia

Global fund managers operating in Asia need to have a targeted client segment strategy if they are to thrive amid increasing regulation and intensifying competition, believes Lennie Lim at Legg Mason Global Asset Management.

Wealth managers and private banks increasingly want fund management companies to meet their needs across different regulatory and competitive landscapes in Asia. This is putting firms with size and a global footprint at an advantage, according to Lennie Lim, head of Asia for Legg Mason Global Asset Management.

“This has played to the strengths of those global firms in Asia that are very transparent,” notes Lim.

“We are able to engage with several private banks which are global players where a lot of the due diligence is either being done by head offices or is centred on a different part of the world.”

These distributors need quick access to investment products from multiple locations because it is increasingly, and in some cases prohibitively, expensive to conduct due diligence on a market-by-market basis.

Legg Mason has identified certain firms as global clients and set up a dedicated team to serve their needs.

“To have a successful partnership with a global private bank you need to push a product onto their global platform,” Lim explains. “Once it is on the platform you need to pull the product into a specific jurisdiction and make sure their relationship managers [in that jurisdiction] understand it and are able to apply it to their clients’ needs.”

This requires a lot of heavy lifting on the part of a fund manager, he notes, as bankers and gatekeepers need to have confidence that they will receive constant support and timely updates.

It is even more important in Asia where there are a variety of different regulations, cultures and languages.

“Even if countries use one form of Chinese there are nuances within the



LENNIE LIM
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local language that we need to be familiar with. All our presentation materials must be customised to our local clients on the ground,” says Lim.

This is not something every fund manager can achieve. Some players have come to Asia and marketed their products to a few institutions, but when they went beyond those clients found they required a huge infrastructure to support their businesses.

“There are regulations coming out every day, either making it a bit harder [to sell funds] or meaning you have to spell out things in more detail,” Lim says.

“It is a complex, dynamic industry with a lot of competitors, and there is constant pressure on fee margins, so it is not easy to create a sustainable asset management business.”

In this environment, he believes, it is important for fund managers to know which segment of the market they are best-suited to. In some cases, fund houses are competing with the internal asset management companies of the banks they are targeting.

“We have always been excited by Asia as we have seen the tremendous amount of wealth growth driven by a high savings rate and GDP,” he says.

“There is concern about the fast-aging [population] so there is a strong need while tremendous amounts of wealth are being generated to do something about retirement savings.

“Governments are trying to make sure there are building blocks in place.”

The number of people in Asia aware of how financial products can serve them in retirement is growing, with government initiatives, media coverage and the emergence of independent financial advisers publicising the issue.

Using technology to choose investments is a related trend, Lim notes.

“The younger generation has a great interaction with technology. The

incumbent upon fund managers active in the region to answer these, according to Lim.

Currently, Legg Mason’s flexible fixed-income, US and European portfolios are most popular, he adds.

However, he believes geographical diversification is the most pressing requirement for investors in the current economic environment.

“In the past, when you were planning for retirement you would think that you needed to have a conservative asset allocation,” he explains.

“But in the last 10 years, perhaps due to quantitative easing in the US or Europe, people have started noticing their local currencies depreciate substantially, so if you are a retiree holding local deposits you will lose purchasing power.”

The current low interest rate environment is another reason for Asian investors to look beyond local deposits. Legg Mason’s house view is that this will persist for some time.

The need for diversification is important to Asian investors’ long-term needs, and Lim notes they will need to be patient to ride out the inevitable volatility of some equity markets.

“The right financial advice at the current stage, when [Asian] investors are generating substantial wealth, will go a long way to meeting their investment goals,” he adds.

“[We are] trying to understand both the short-term and long-term needs of clients in Asia and aim to find the right answers for them, bearing in mind our firm’s strengths in various areas.” ■

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“There are a lot of players coming into the market, which is increasing competition, but those that have been here for longer and built relationships give distributors confidence,” says Lim.

MEETING NEEDS

More specifically, Lim believes there are substantial opportunities for fund managers in Asia amid the region’s rising incomes and concern about rapidly-aging populations.

chances are, if you are going to buy something, you will have done your research either via Google or other websites and social media,” he says.

“We recognise that when it comes to investing and retirement planning this trend is only going to increase.”

As their awareness increases, Asian clients and advisers are also asking increasingly technical questions, and it is