Seeing a pick-up in Asian interest

Investor interest around the region is gaining ground but there is still a need to raise awareness about the importance of consistent investing, says Matthews Asia's Jonathan Schuman.

After a hiatus, Asia is once again starting to generate positive interest among investors. That's according to Jonathan Schuman, head of global business development at Matthews Asia. "Asia is no longer the source of negative news flow. Economic data from China, in particular, is stabilising and looking increasingly positive. It wouldn't be surprising if investor interest towards Asia starts to pick up as we go through the year."

That will be good news for asset managers such as his firm, which is the largest dedicated Asia-only investment specialist headquartered in the US. At the end of December 2016, it had USD24 billion in AUM.

Schuman believes that, in general, the political and macro-economic policy environment is more stable and that could start to change investment allocation patterns. "Investors around the world haven't been paying much attention to Asia in the past 3 to 4 years; even within Asia, much of the allocations has focused on the developed world." Nevertheless, the Asia-focused firm has persisted in building up its presence in the region over the past seven years. Schuman says it has spent a lot of time and resources educating its clients on Asian assets.

EDUCATION IS KEY

Such a commitment has meant organising programmes in a variety of ways – including workshops, seminars and training on Asian fixed income and equities, as well as on the political, macro-economic and corporate environments.

"The emphasis continues on being helpful to our clients and distribution partners in whatever way we can," says Schuman. Indeed, with a large proportion of their distribution partners' business being advisory, it remains critically important to support them with every kind of educational material so that they stay well-informed to have meaningful engagements with their clients.

JONATHAN SCHUMAN
Matthews Asia

Besides, it's also important to remember that not everyone has the same understanding of different financial terms.

"For instance, if we use the words 'long term', we need to explain clearly what that means because not everyone has the same understanding," he says. "In addition, it's important to explain why investors need to think long term. Being a long-term investor is good only if you can show that it adds value to a portfolio."

Indeed, awareness about investing is strongly needed given that both the asset management and wealth management industries face a similar problem – a lot of investor cash is sitting on the side-lines and not being put to work.

"Many experts talk about the benefits of asset allocation or investment selection, but the fact is that value cannot be added unless there is an investment to begin with," adds Schuman.

Yet investors still don't fully understand the importance of diversification and persistent investing, he adds. "Investing heavily in one asset class such as property can generate a one-off return, but it is not really a long-term sustainable financial solution."

ACTIVE OR PASSIVE?

Of course, in today's low-growth, low-interest rate world, investing and generating high returns has become challenging compared to a decade ago.

Add to that the rise of passive instruments such as ETFs, and it's easy to see why it is tougher for asset managers to sell the idea of active investment management.

However, it doesn't mean the end of the road for active managers, just that they will need to learn to live amicably with their passive rivals.

"I think it is essential to acknowledge that there is a role for passive instruments and actively managed products in portfolios," says Schuman.

Indeed, in the active-passive debate, it is important to keep in mind that the world has been experiencing the effects of ultra-loose monetary policy, which has made it difficult for active managers across asset classes to outperform consistently.

But that situation is changing with the gradual normalisation of interest rates (which has begun in the US) and could lead to higher volatility in coming years.

That should benefit active managers, according to Schuman. He also notes that in Asia, there is still a case for active management for equity markets.

"Equity markets in Asia are still inefficient and we orient our portfolios towards those less efficient or underappreciated parts of the market, which should help us generate strong relative returns as an active manager."

In addition, there is currently a mismatch between Asia's share of world GDP (over one-third) and its share of world stock market capitalisation (under one-fifth), which over the long run, can provide substantial opportunity for investors.

On its part, Matthews Asia uses a fundamental, bottom-up investment process that seeks to identify companies with sustainable long-term growth prospects, strong business models, quality management teams and reasonable valuations.

This research process involves more than 2,500 company meetings every year. Studies by the fund house comparing various US, international, emerging market and Asian strategies also suggest that Asian strategies score well on a number of attributes, including yield and diversification.

Currently, says Schuman, investors are showing a fair bit of interest in the Asian credit space in the hunt for yield.

"It is fundamentally sound, has attractive yield and is relatively less interest rate-sensitive than other segments of the fixed income universe."

In a region hooked on fixed income, wealth managers have been encouraging clients to reduce these allocations and shift into equities, but that has been a challenging task.

However, with interest rates starting their ascent in the US and in some other parts of the world, the prospect of capital loss in the fixed income portion of portfolios has become real.

However, there is still a need for income and that is where certain types of dividend equity strategies can come into play.

A strategy that blends dividend growth with stable yield could appeal to investors, according to Schuman.

In contrast, a simple high-yielding equity strategy is more of a bond proxy and tends to be interest rate sensitive, and can't provide refuge in a rising rate environment.

It's one reason, he says, why Matthews Asia's pan-Asia dividend growth oriented strategy is receiving more attention from investors right now. ■