Link to Article on website
Link to Partner Profile

Solutions for the Globalisation of Investment Portfolios in Thailand

An eclectic group of wealth management product and service providers, and investment fund gatekeepers assembled in Bangkok in October at the invitation of Hubbis and our exclusive partner for the event, Allfunds, to discuss the development of the onshore market in Thailand for offshore investments. The discussion was framed within the overriding trend across Asia towards the globalisation of high-net-worth investors' portfolios, as well as the rising interest amongst the growing ranks of mass affluent for a broader range of assets. How then is the domestic and international wealth management community catering to these needs? How is the domestic and global fund management industry reacting? These and many other key topics were debated in what turned out to be a fascinating discussion.

The key takeaways

The big players still dominate in Thailand

The banks in Thailand and their securities firms, as well as a small number of independent brokerages, still dominate the distribution of mutual funds.

The 'feeder-fund' model persists

Despite the relatively modest size of the capital markets in Thailand, only about 20% of the funds house foreign assets, and those funds sold onshore are still in the form of feeder funds for overseas registered funds.

Most global fund names are not to be seen

Due to the ongoing indirect, or feeder-fund protocol demanded by the regulators for foreign funds sold onshore, many of the global asset management names have little representation, or no presence in Thailand at all.

New entrants making little headway so far

Although there are more global investment platforms plying their trade in Thailand, offering access to a world of funds, and despite the arrival of new entrants and robo-advisers, they are making little noticeable impact on the hegemony of the major distributors in the Thai mutual fund market, with its assets under management of around Thb4 trillion (USD125 billion) at the end of August.

Progress towards open architecture remains slow

Although there is indeed some indication that the major players are more customer-centric than ever before, progress to genuinely open architecture remains slow, partly because regulation somewhat impedes open access and also because of the "why fix it if it isn't broken" type of attitude amongst the dominant distributors.

Expertise in foreign assets remains modest

Despite the immense wealth of Thailand's HNWIs and the ultra-wealthy and their globalised portfolios - built largely offshore through the global private banks - the impetus towards diversification of domestic portfolios and the expertise of the domestic financial community in foreign investments both remain modest.

Overall growth in foreign investment lags

The experts generally agreed that while the market is seeing a movement towards a broader distribution of offshore investment opportunities to the mass affluent as well as to the HNWIs, the numbers of actual mutual fund investors in Thailand should be advancing faster than is actually the case so far.

But positive moves are afoot

The drive towards globalisation of investment portfolios is being encouraged however by the greater competition at home as a result of new partnerships and alliances, for example amongst major local banks and offshore boutique private banks.

New connections are also being made

Moreover, The Stock Exchange of Thailand in September announced that their fund trading platform, FundConnext, had forged an alliance with Clearstream Banking's Vestima platform, an international central securities depository, to enable more cross-border funds transactions.

Platforms have cost and efficiency credibility

As the market gradually evolves greater interest in foreign assets, there is considerable and growing logic in the incumbent distributors working with funds platforms, rather than working so directly with offshore fund management houses, which is both costly and time-consuming.

Customisation also on the rise

It is important, said one expert, to work with platforms that do not simply offer the same old funds, even if those are at a very low cost of access. It is also important to offer end-investors customisation.

Investor education is essential

There was broad agreement that far more needs to be done by the industry players and by the regulators to encourage greater knowledge amongst mass affluent investors, and in the broader retail space.

Distributors must also play their part

Education must concentrate both on the distributors and on the end investors, as both segments lack the requisite skills and sophistication. Given time and enough focus, they can follow the path towards the more European model of wealth preservation and investment.

Greater diversity is a core goal

Open architecture and needs-based discussions are clearly steps in the right direction, but the market also needs more diversification in terms of domestic assets, for example into property-related funds, REITs, and other new opportunities, such as private equity mutual funds, principal-protected, guaranteed funds, and multi-asset funds.

THE REPRESENTATIVE OF A MAJOR INTERNATIONAL ASSET MANAGEMENT FIRM OPENED THE DISCUSSION by noting that the banks in Thailand remain the dominant distributors of mutual funds. He said he had worked in other countries, such as Korea, Japan, Hong Kong and Singapore, and what differentiates Thailand is that there is a tight set of banks and securities houses that sell funds today and dominate the market, exploiting their powerful distribution.

He noted that about 20% of the funds are foreign funds, where banks set up feeder funds for overseas registered funds, and many of the global names have little representation, or no presence in Thailand at all, including some of the major cum household global fund names. "In most other Asian countries I know," he remarked, "those names usually have a strong presence locally, so it is unusual here that the regulators, the distributors, the securities houses, and most importantly the investors, do not have any concerns about this."

However, he observed that with the rise of new platforms including robo-advisors, some disintermediation of the distributors is to be expected. The hope is that this will help the Thai mutual fund market assets under management, which stood at around Thb4 trillion (USD125 billion) at the end of August, to rise sharply in the years ahead.

"We ourselves," he added, "have a full asset management licence here, but we are small, and we only have domestic equity and domestic fixed income capabilities, not global. We are essentially just a rounding error in terms of the fund assets in the market, and actually having a domestic presence is not in fact really seen as a positive, as feeder funds to brands that are not present here is the comfortable norm today."

Low rates but low investment levels

Another asset management professional from a different insurance name highlighted the extremely low interest rates locally and even more so globally, remarking that this makes demand higher for unit-linked insurance, as is the case now in Malaysia, Hong Kong, Singapore and in some other Asian markets.

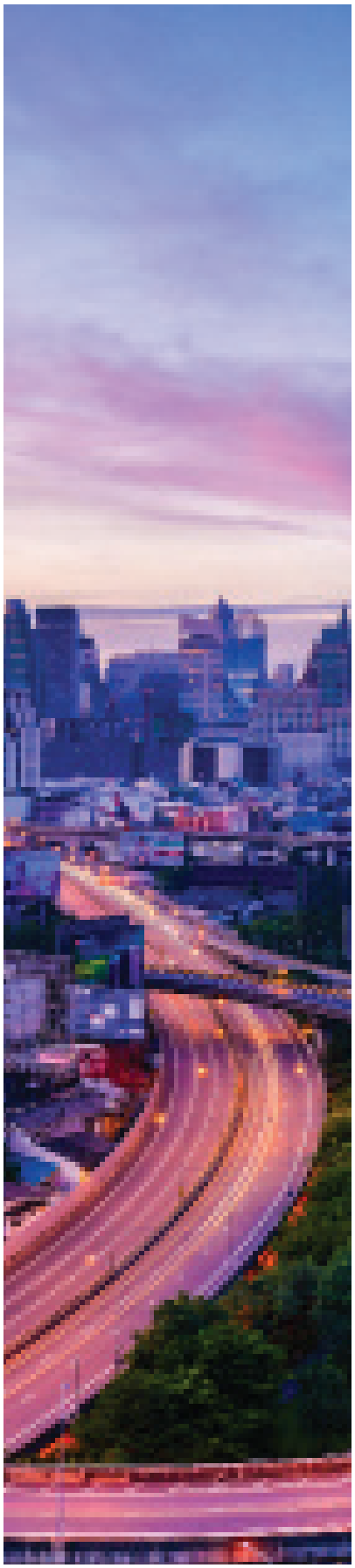
"You are not going to sell insurance on a normal traditional method anymore," he commented, "as it has to be on a unit-linked platform now. We have obviously a very large agency force, with a broad mix of asset management and different funds available through that open architecture distribution, which helps with fee levels, but a lot of the banks and often their in-house securities companies have their own protocol." He indicated that they are becoming gradually more customer-centric but their progress towards open architecture remains slow.

A guest highlighted how Thailand appears to be viewed as a safe haven for foreign money, hence interest rates have dropped sharply of late. The Bank of Thailand is trending rates down, of course, but large inflow from other Southeast Asia countries or Asian countries into Thailand is exacerbating this trend. Moreover, as the stock market is at a roughly three-year low, the money is staying in cash, not equities.

A good time to be buying

"But," he said, "my way of looking at it is they should be taking money out of deposits and investing the cash in risk assets with a five-year time horizon. Interestingly, most of the confidence that seems to be in Thailand as a country is now from outside, not necessarily internally."

MANOJ PRAJAPATI
Allfunds



A guest from a major local bank opined that the local asset management industry is not expert in foreign assets, so looking ahead, foreign partnership of some type will remain key to the overall market's growth. "I also think that there will be more variety in terms of partnerships, not just feeders, or funds of funds as in the past," she observed. "Moreover, I think the competition will be more intense, both from organic expansion and new entrants, or from mergers and acquisitions, or alliances, as we have seen this year. I see a more challenging environment ahead."

SET takes action

"The idea is that a Thai investor working through a distributor linked to FundConnext can go straight through and buy a foreign fund offshore direct without any need to have a feeder fund structure," this guest reported.

An expert pointed to The Stock Exchange of Thailand's announcement that their fund trading platform, FundConnext, had in September this year forged an alliance with Clearstream Banking, an international central securities depository, to enable more cross-border funds transactions.

The idea is that the new linkage with Clearstream's global fund processing platform, Vestima, enables international investors to access the Thai fund market, and in return, Thai investors have better access to more than 190,000 investment funds in close to 50 jurisdictions worldwide via Vestima. With around EUR14 trillion in assets under custody, Clearstream is one of the world's largest settlement and custody firms for domestic and international securities.

"Actually," said the senior banker, "I am not at all surprised by this news, as it has been discussed for some time. But this is just a platform, it doesn't really engage strong marketing capabilities, so, yes, we will keep an eye on it, but no, I don't think it would play a notable role in the next one or two years, especially as there are capital gains and other issues to solve related to this."

Another guest said that while there are tax and other implications to solve relating to this development, he said he expected the platform to markedly boost foreign fund activity by local investors within a few years.

New arrivals, but the same shortcomings

"Actually, there are more and more foreign or global or regional, and reputable fund houses coming to Thailand already, in one way or another," said this expert. "But they need to also focus on after-sales service, after we invest in their products, so areas such as NAV data, trade confirmation, information flows on request, due diligence enquiries, marketing commentaries, that type of support for the industry for their products."

The representative from one of the very largest advisory and service providers to the global institutional investment industry explained that their firm indeed offers, for example, fund ratings based on a qualitative framework, idea generation and how managers construct portfolios. "However, we note in Thailand that the individual market here tends to more easily digest the simple historical returns, so we are struggling to get our methodology adopted in the market. However, we also deal with a lot of institutional clients and we do see that Thailand is increasingly

interested in global assets and that this should help us here."

Manoj Prajapati, head of sales for the Southeast and South Asia region for Allfunds, added his voice to the discussion. Explaining about Allfunds, he noted that Allfunds' mission is to build an efficient platform through which institutional clients such as the banks, the asset managers, or the wealth managers and securities companies can in an efficient way access offshore funds without the need to go through the trouble of creating back-office operations, legal infrastructure, and so forth.

A market in evolution

"What we are seeing," he told the guests, "is an evolution of the older ways of doing things, where every private bank, every asset manager or wealth manager would open direct agreements with a fund manager, which of course is and was immensely costly and time-consuming. Resulting in a limited choice of funds. But for example in the Middle East, where I was based before Asia, we have really opened that market, successfully representing the fund managers who might not be physically present, widening the range of funds available and offering professional after-sales service. Cost is a major factor, especially as fees are coming down globally, and there is of course a more rigorous focus on eliminating non-core activities and building scalability."

A guest then offered his view that more choice is not actually the same thing as more funds. "We work with quite a few platforms," he reported, "and the trade-off is always that the ones who are most bespoke in terms of the access they give as running a more expensive model, while those running a more cost-effective model tend to be running something that is very wholesale, so for example 100 different US equity funds, 100 different US corporate bond funds, and that is not really choice. As I see it, there is a trade-off between a big number of funds, and a relatively low cost, super-efficient platform, or more bespoke access at higher cost."

Customisation important

"You are right," said Prajapati. "We are definitely seeing the needs of clients becoming more customised. We do have our limitations, we cannot offer anything and everything to our clients, but we also do have our ears open to say if there is a specific requirement of a client, we can consider that. In fact, some clients know exactly what they want and need support for the execution and custody, and others have more lofty aspirations and want help picking the best of breed, help with building their client offering, so we work with them on customisation, first understanding their parameters for evaluating what is good for them and for their clients. In short, that kind of bespoke solution is something which we are getting into, because of the changing dynamics of the market."

A senior gatekeeper at a leading domestic bank offered the view that their focus remains on best of breed, good quality, a good track record, and a good name. "We then look more closely at the company, the after-sales service and whether the existing partners have those kinds of products, if not we go out and seek more partners."

They noted that the market is also seeing a movement towards a broader distribution of funds to the mass affluent as well as HNWIs, but the numbers of actual mutual fund investors in Thailand should be advancing faster than is actually the case so far.

An attendee highlighted the rise of robo-advisories in Singapore, noting that thus far they have been better at raising money from investors and advertising than actual connectivity with the end client. "In Thailand," said another guest, "I see very little evidence of it becoming a material force of distribution thus far. It might happen when

it becomes a more widely accepted channel, but today it's immaterial."

Education – a key to unlocking potential

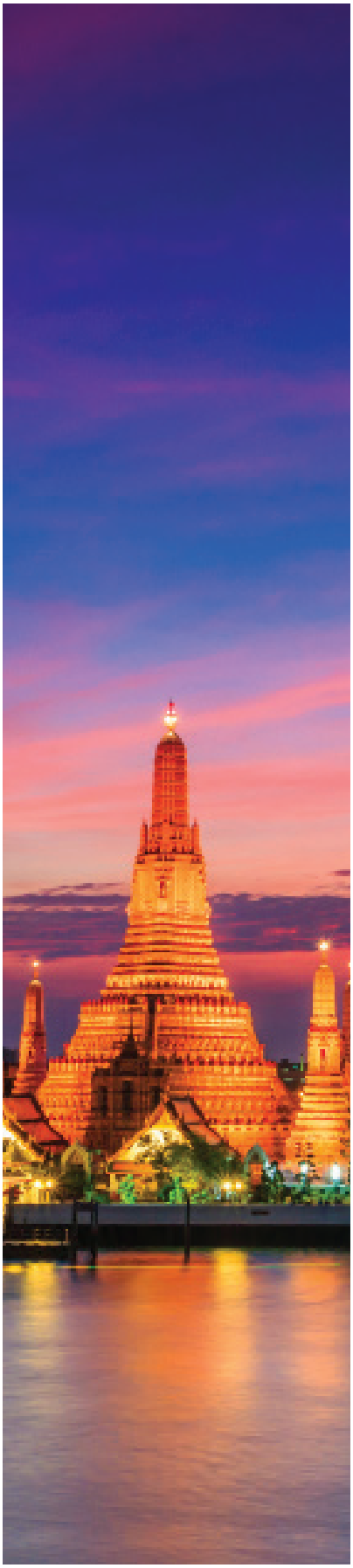
The discussion shifted to the education of the investor market and of the distribution channels. "Education must be led by the industry itself," came one view. "The global fund management houses, of which we are one, can provide a lot of market education material that has been used around the world for decades already to help raise the knowledge level of the investors, to cover the pros and cons of monthly savings, and so forth. However, that also needs to be communicated to the end investor by the distributors who have the end investor relationship. And when I speak to the big distributors in Thailand, the major banks and securities firms, we offer our expertise to help them build knowledge themselves and amongst their end customers."

He elucidated, pointing to the need to provide the distribution staff with technical information, not just sales information, or sales training. "Technical training is vital," he explained, and things such as how bonds work, even equities are often badly misunderstood. What we are trying to do is educate, provide technical investment expertise to the distributors because they are the ones who see the end investor and they are the ones that need to be better educated. It remains the case in Asia generally that funds are sold, they are not bought, whereas the model in US and Europe to a degree is that people buy funds because they do the analysis themselves, they make a decision, they look at their financial requirements and they will make decisions around that."

Big money talks

"I think if you go to Singapore and Hong Kong and in the high net worth family office space, the higher-level private banking space," came another view, "then the advice most people get is very good. However, in the retail space, and here I don't just speak for Thailand I speak for most Asian countries, the market is distribution led, target led, and everybody has to meet on their sales quotas, resulting in customers being generally badly served in terms of what they are buying for the long term, pushed instead to buy with someone's shorter-term opinion and with little supporting information or insight."

"The global fund management houses, of which we are one, can provide a lot of market education material that has been used around the world for decades already to help raise the knowledge level of the investors, to cover the pros and cons of monthly savings, and so forth. However, that also needs to be communicated to the end investor by the distributors who have the end investor relationship."



"We would welcome more people putting money into the markets on a more regular basis, instead of playing market timing, which is very tough," he continued. "That will allow them to structure in the advantages of buying in lower periods in the market. In short, this market from an investment point of view is now particularly mature, it is still dominated by the retail banks and it remains too focussed on distributors meeting a target rather than the customer getting decent advice, in my opinion."

Private banks jostle for position

The discussion turned to the opportunities for private banks plying their trade in the region. "There is a huge amount of Thai wealth just sitting around in deposits here, not invested, or sitting offshore, so there is a major gap in the market the private banks see," said one expert. "Although Thai institutions have improved greatly in the 25 years I have been here, especially for local investments, there is still a major gap in offshore opportunities; there is still too little exposure to international product in Thailand. With the type of huge gap, people are going to do much more sophisticated things to fill that gap in the market than just arrive here with giant empty suitcases as they did 25 years ago!"

Open architecture and needs-based discussions are clearly some steps in the right direction. "Too often," said an expert, "investors would just think only of simple bonds and equities, but we need to see more asset classes or alternatives, for example property funds, which have done very well here. The supply of these asset classes is limited as yet, so too the liquidity is low, but the distributor market needs to help develop these types of products. Another one for example is a private equity mutual fund, which we have launched this year. Another is principal-protected, guaranteed funds, sometimes multi-asset."

But the general consensus was that the investment industry as a whole in Thailand had not offered enough and continues to lag well behind in the diversity of opportunities for its onshore clients.

Regulators can also help

Prajapati added his view, gleaned from his experience of India. "The most populous country in the world aside from China," he commented, "and the penetration of mutual funds is less than 3% of the total population. But the regulator has come up and built an education plan under which they allow the fund manager to keep 2-3 basis points in a side kitty and make the asset managers accountable to use that pool of money to go and do investment seminars and road-shows, and they are actually financially incentivised. If the asset managers are unable to utilise that money then it goes to the regulator's education plan, so the result is a great increase in events across the industry, boosting education among the retail investors."

And with that comment, Prajapati closed the event by thanking the guest and remarking how well Thailand has been progressing in general as it journeys towards a more sophisticated and inclusive wealth management environment. "Allfunds is ready and able to support clients here to build an efficient system as the country continues on its path towards diversification of investment classes and towards more offshore assets," he said on closing. ■

Allfunds - An Overview

Allfunds is today the world's largest institutional fund distribution network, describing itself as a global marketplace where fund groups can reach world-class financial institutions across more than 45 countries.

Manoj Prajapati, head of sales for the region, reports that Allfunds is the leading European B2B platform, working with more than 1,475 fund managers and offering over 78,000 funds that are accessed by 640 institutions through 45 different countries. In 2018, Allfunds processed some 14 million trades, all automatically and with no manual intervention.

"We help financial institutions to scale up their business without increasing their infrastructure and costs," Prajapati explains. "With our open architecture we do not favour any funds or any providers, we favour best of breed solutions for your end customers. You have optimal products to offer with lower cost and considerably greater ease and speed."

Prajapati reports that although Allfunds only fairly recently began to ply its trade in the region, the firm has already garnered significant volume of what the firm terms assets under intermediation. The growth is dynamic, he reports, because wealth management firms in the region are at such a positive inflexion point in terms of their development and therefore often seek out the value proposition that Allfunds offers.

"We have huge experience," he says. "We are non-conflicted; we are all about the facilitation of the mutual fund industry."

"That really complicates the distribution channel and let's not forget that in today's world everything revolves around cost," he observes. "And that is where Allfunds also adds value, as digitalisation is not only front office, it is about trying to streamline your middle and back office and that is where we play an important role, to make thing efficient so that tomorrow when you want to leapfrog, you want to increase your operations, your services, then you don't have that bottleneck or a traffic jam that might impede growth."

Prajapati sees wealth managers today spending much of their time working out how to add value to their clients and to do that they need to access and provide the best products in the timeliest manner. They are often impeded, once having selected a fund, by know-your-client (KYC), by due diligence requirements and so forth. Those factors cause delays, create client frustration and generally cause a lack of immediacy and responsiveness.

Prajapati believes the Allfunds platform removes many of these headaches by connecting electronically to the service providers, fund managers and financial institutions who, through what he termed a seamless platform, can access the myriad of funds available. Importantly, all this can be achieved without the need for multiple due diligence and operational steps.

And the platform also provides the latest data and information the relationship managers (RMs) need to be most effective. Wealth management advisers clearly do not want to go to the website of each and every local or global fund manager to get information, they do not want to be opening an account with each and every transfer agent, they do not want to conduct the due diligence on each fund. Allfunds aims to make all these steps dramatically more efficient.

The mission is therefore to help the wealth managers execute and communicate to their clients rapidly, efficiently and constantly facilitate information and price data flows. As Allfunds handles the account segregation, the platform helps clients mitigate risk and ensure ease of audit and compliance.

Importantly, Prajapati also notes that the platform operates within the bounds of the regulatory framework of each country so that clients can be assured that all activities comply with their local and international regulations.

Finally, there are for Allfunds' customers four different levels of connectivity. The simplest is plug and play, where Allfunds' clients are given access to the website on which they can go ahead and start trading. Then there are three higher levels of integration and sophistication available for clients.

Prajapati concludes by remarking that the funds on the Allfunds platform are not only international, they are also local and regional funds. "As I said, we have got something like 1,475 fund managers and through one single agreement our wealth management clients can access them seamlessly," he reports. "You can thereby bring products quickly to your clients and help them offer the right choice without spending too much time on paperwork and on legal agreements." ■