

# Spearheading specialist strategies for alpha generation

*Alternative and other active specialist strategies are important components of investor portfolios in Asia, says Suresh Singh of Principal Global Investors.*

The search for yield and the migration towards passive strategies is putting the offerings of active specialist managers into focus. Specialist boutiques are weathering the storm better than some larger firms when it comes to the ability to generate alpha.

Says Suresh Singh, head of funds distribution for Principal Global Investors in Asia: “Over the long haul, specialist strategies, including liquid alternatives, have a position in client portfolios and I believe the banks will recognise and allocate to that space. It’s already starting to happen. This will be particularly so as client advisers look to see how to effectively combine active and passive funds.”

The volatile market conditions make it more difficult to generate returns, and so the search for alpha-generating managers with innovative strategies is creating opportunities for specialist fund providers.

## MULTI-BOUTIQUE ADVANTAGE

It’s through such specialist strategies that Principal, a global funds business, seeks to distinguish itself from its competitors.

Principal’s multi-boutique business model has a hands-off approach that allows the individual boutiques to run their own business and investments but at the same time provides the necessary institutional infrastructure, internal audit and oversight. The group has 14 such investment boutiques.

Singh, previously at BlackRock before joining Principal in August 2016, is focused on introducing the capabilities of the diverse group of investment boutiques that comprise Principal Global Investors. These boutiques cover strong, stable investment specialities in equities, fixed income, real estate and alternatives to deliver competitive investment outcome for key intermediaries, fund selectors and investment platforms.



**SURESH SINGH**

Principal Global Investors

“For example, we have an open-ended private equity fund that invests in US commercial real estate, which can be a real benefit for clients who are looking

for exposure to direct US real estate market,” explains Singh.

The firm boasts one of the largest US real estate businesses, covering the four quadrants of private equity, public equity, private debt and public debt.

Another example of a Principal boutique is Spectrum Asset Management, with USD22.8 billion in AUM (as of 30 September 2016). This makes the firm one of the world’s largest specialised managers of preferred securities – which are ‘hybrid’ securities that sit between senior debt and common equity.

### SEEKING GROWTH

In a market teeming with fund managers, Principal does not aim to become a ‘me too’ product manufacturer. Instead, it is focused on bringing to Asia a set of specialised strategies that can deliver desired outcomes to clients.

In the search for yield, for instance, Asian private bank clients are snapping up subordinated debt instruments such as additional Tier 1 securities and contingent convertibles directly. “That’s an area where our boutique, Spectrum, with over 29 years of track record focussed on just this sector, has a lot to offer to clients,” Singh points out.

This specialty approach is also effective in supporting the wealth managers too. “We know that advisers can perhaps be a little uncomfortable about some clients buying these instruments directly since they know what the risks are,” he explains. “So if we can offer them an actively-managed solution that offers a yield comparable with what clients receive from direct investments but through a high-quality diversified portfolio with active down-side risk management, it opens the door for us.”

This is reflected in a unique strength Singh brings to the table for Principal – his relationships with several discretionary portfolio managers. This strength is especially valuable when considering the drive towards discretionary among private banks in Asia, which is leading to a fundamental rethink of the business model for many fund houses. “We are in the business of helping advisers manage wealth for their clients as opposed to just selling products,” says Singh. “As the business model changes – and it is changing very fast – our clients will benefit from Principal staying true to its focus.”

### GROWTH OF PASSIVE PRODUCTS

Another trend influencing the investment management industry in Asia is the growth in passive products. “These strategies are gaining ground but contrary to popular belief, active management is not dead,” says Singh. “We believe that the approach which works best for most clients is one that combines active with passive.”

Although passive management starts from a belief that markets are largely efficient, and that the potential returns from capturing any inefficiencies will be more than offset by costs and risks, the reality is different. For example, there are many asset classes that can be considered inefficient.

“Our conviction is that, in the hands of the right manager, active investment not only pays for itself, but can make a material financial difference to the investor,” he adds.

In Singh’s opinion, this makes active management an essential tool which can help investors better navigate the outcome-oriented investment world that is increasingly their choice today. ■

### Asia operations, global teamwork

*Successfully operating in Asia requires an understanding of the dynamics of the product approval process in the region. In the case of bigger global private banks, for example, due-diligence and on-boarding of strategies which are not Asian or that are managed outside of Asia, are typically taken outside of the region.*

*This is where the value of a global investment firm comes into play. The Principal team in Asia works together with colleagues in Europe and the US to strengthen client-centric product offerings. At the same time, the team partners with its teams in Singapore and Hong Kong for efficient distribution of products for the local private banks that are based in the Asia region. “In these cases, we work directly with the fund selection and due diligence teams based here.”*

*The other segment of the market that Principal is engaged with is independent asset managers, including multi-family offices. Geographically, Singh remains focused on Singapore and Hong Kong where these private banks and multi-family offices are based. For other markets in the region, Principal works with its joint venture partners: CIMB-Principal for ASEAN and CCB-Principal for China.*

*“We believe as market challenges persist, ‘client-orientated thinking’ is sure to remain a key driver to success,” adds Singh. “We have a broad distribution footprint that provides direct access to the markets and companies in which we invest and close proximity to the clients we serve. We believe that successful investing involves adding fresh ideas and a specialist mindset with a global presence.”*