Substance and patience count most for Aberdeen in Asia

After 23 years in Singapore, both Hugh Young and Aberdeen Asset Management's Asian business remain committed to a long-term investment approach. And the firm's ongoing drive to localise its offerings stems from a belief in the benefits of early-mover advantage.

There is nothing particularly complex about the approach by Aberdeen Asset Management to its Asian business. It is all about taking a longer-term view, doing its homework and investing in a selection of what it considers to be Asia's best companies, dotted across industry segments and countries.

It is not a shoot-the-lights-out investment style. And once it buys, it tends to stick with its holdings.

In short, this comes down to ignoring benchmarks and sticking to convictions, rather than getting swept up in short-term enthusiasm, explains managing director Hugh Young.

It has also been important to bear the pain during the inevitable periods of market fluctuation.

Yet this can be either way. The firm probably had its most painful period during 2006 when markets were really hot and it was 15% behind benchmarks. And it requires certain characteristics to weather such times. "You need to understand what you are doing and why, and also, just as importantly, you need to get your clients to understand and accept this," explains Young.

Despite 2015 being one of these difficult years for performance, Young is enthusiastic about Asia. "I find this a fabulous part of the world to invest, even though we are down roughly 10% this year. We have had years where we were down 30%, but I would caution anyone investing in equities anywhere, if you are not prepared to lose 20% in a day, just keep your money in the bank."

Young's – and Aberdeen's – philosophy hasn't proven to be such a bad way to go. Based in Singapore since 1992, as the main regional investment arm of the Aberdeen Group, regional AUM was just under USD80 billion as at 30 September 2015. Headcount is around 450.

HUGH YOUNG
Aberdeen Asset Management Asia

A RELIABLE PARTNER

Apart from Aberdeen's investment style and performance, distributors have come to expect the firm to do betterthan-average during difficult times. "We are quite defensive in down markets given our view of balance sheets," says Young. "This is the rock on which companies are built."

Its distribution partners also look for the firm to communicate well with them about the strategy, again especially during the tougher times.

This has been important in recent months, in particular, as its portfolios have been slightly under-performing due to market volatility. Young puts this down largely to the asset allocation, for example South-east Asia versus China.

"But the important thing with both distributors and end-clients is to communicate with them about what we are doing," he says. "For example, this means explaining what we got wrong, and why we are continuing to run our portfolios in this way."

EYEING ONSHORE ADVANTAGES

Notable about Aberdeen's Asian story to date has been its appetite for being on the ground in several local markets – where it sees opportunities, and where it knows as investors.

Other than Singapore, its array of offices across the region, over which Young presides, include Hong Kong, Thailand, Malaysia, Australia, Japan, Taiwan and Indonesia, China and Korea.

Indonesia is the most recent of these, with the business launched in December 2014 as a fully-licensed onshore fund manager after the acquisition of PT NISP Asset Management.

The move was a response to the broad pace of economic growth in the country, coupled with the rising level of affluence. The premise goes, as savers get more knowledgeable, they will be more willing to put money into risk assets.

But as with other markets, the firm hasn't entered Indonesia expecting to raise assets quickly.

Instead, it is comfortable taking its time, building its distributor and client bases, and focusing on performance, education, service and brand development.

Rewinding a few years, Thailand was the first of the more 'local' markets where the firm made a foray. And it is a profitable part of the group's business.

"These [offices] represent long-term propositions for us," explains Young. "Eventually these countries should do well and we want to benefit from an early-mover advantage."

Activities elsewhere highlight the continued importance of Asia to the firm.

For instance, it is in the process of registering funds in Korea. In Indonesia, the next step involves introducing funds through banking and insurance channels. In Malaysia, it is expanding its product range with something new for the local market.

INVESTING IN CHINA

In China, meanwhile, the firm signalled its growth ambition when it was granted a Wholly Foreign-Owned Enterprise (WFOE) business licence in September 2015.

This enables it to set-up an office in Shanghai under the pilot Free Trade Zone, and in turn, overcome the chief constraints it has faced, namely access, control and manpower. This moves it beyond having a representative office, which it had in place since 2007 to do liaison work.

Rather than doing China research from Hong Kong, it can now benefit from having business development staff on the ground, along with analysts to research local equities. And eventually it will look to register its funds in China.

Young is quick to clarify that this initiative also involves a cautious approach. "While we welcome China's market opening and we're thrilled to gain our WFOE licence, we will proceed slowly. It's important to maintain our investment disciplines and assess opportunities carefully. While the asset management industry there is young and the potential is huge, our vow is to avoid short termism and focus on quality." ■

In the right job

After 30 years with Aberdeen, recruited initially by the firm in 1985 to manage Asian equities from London, it is easy to still see Young's passion. "The most enjoyable thing for me is the investment side of the business," he says.

Ironically, he likes it the most when things go wrong. "It is difficult to always appreciate when we are invested in those companies, and one wishes these things didn't happen, but you can learn so much."

He also thrives off being able to nurture younger investment managers who the firm brings on. "It is satisfying to see some people we employed 10 or 15 years ago really shining."