Taking the alternatives route in Asia

Demand for low-vol alternative products will continue through 2017 against a backdrop of rising worldwide political and market uncertainty, says Carol Wong of Old Mutual Global Investors (OMGI).

Political uncertainty in the US and Europe is leading investors in Asia to become more receptive toward low-volatility alternatives.

"Investors in Asia have typically been aggressive risk takers, but they have turned more cautious now," says Carol Wong, managing director for Asia Pacific at OMGI.

With a slew of political events, including critical elections in France, Germany and the Netherlands, looming on the horizon, and uncertainty about 'Trump-nomics', demand for income products with low volatility will continue into 2017, she adds. As part of that demand, alternatives are poised to benefit.

"Given our strategy to penetrate private banks, we plan to continue to expand our alternatives range, building on the success we have had in the alternatives space over the past two years," adds Wong.

The plan is to introduce more established strategies in the region and potentially launch new alternatives products this year, she explains.

As a global group, OMGI has been managing alternative strategies since December 2001, with a range of funds spanning equity, market neutral, directional equity long/short, global macro and gold and silver strategies.

ALTERNATIVE EDUCATION

Wong says that in recent months, some of the asset manager's alternatives funds have experienced good inflows.

Nevertheless, she believes there is still much to be done in the realm of education when it comes to alternatives.

"Investors should feel comfortable in investing in liquid alternatives strategies such as market neutral strategies, because these are low-volatility products that can generate returns irrespective of the market conditions," she says. "Yet, most investors don't really understand liquid alternatives and at the retail level, perceive these as high-risk products."

CAROL WONG
Old Mutual Global Investors

Apart from alternatives, another OMGI product that had demand in early 2017 was the North American equity fund. Investors seem to be betting that Trump's policies will be pro-growth and pro-infrastructure, which should bode well for US equities.

CONSOLIDATION CONSIDERATIONS

Given the strong focus on private banks as distribution partners, OMGI's team knows all too well the challenges facing this segment.

For instance, the relentless pace of consolidation in the private banking industry, driven by rising regulatory and compliance costs yet sliding profit margins, is leading to more streamlined product platforms. That is, without doubt, affecting product providers as well. "With the ongoing consolidation, it becomes even more important to offer best-in-class products," notes Wong.

Indeed, it's not just private banking that is undergoing a bout of consolidation. In March 2017, Scottish fund houses Aberdeen Asset Management and Standard Life Investments announced they were in talks for an all-stock merger.

In October 2016, meanwhile, US-headquartered Janus Capital announced a merger with the UK's Henderson Global Investors. Then a couple of months later in December, French firm Amundi announced it was acquiring Pioneer Investments.

Part of the reason for this rash of M&A activity in the asset management industry is the fact that the performance of many active managers has languished in a low-growth, low rate environment.

Meanwhile, passive product popularity has soared, adding further pressure on fees for active managers. Wong believes life will indeed continue to be challenging for asset managers that do not have stand-out offerings.

"There will be some more consolidation in the asset management industry," she says, noting that even the hedge fund industry has been experiencing a fair bit of consolidation over the past few years. However, the consolidation will not be as intense as that in the private banking industry since many asset managers can still showcase differentiated products."

EYE ON EXPANSION

Apart from private banking distribution channels, OMGI is spreading its bets. "We are keen to penetrate the institutional space such as sovereign wealth funds, pension funds, and we have already formulated strategies for this," says Wong.

Traditionally, a majority of OMGI's assets have come from HNW individuals. So moving into the institutional space is just a natural progression, she adds.

Geographically, the fund house is also looking at regional markets such as Malaysia and Thailand.

Last year, it hired industry veteran Gerard Clancy as head of sales for South-east Asia, to expand the business client pool and build sustainable strategic partnerships with clients in the region.

China is another important market. Last year, OMGI hired Richard Mo, who formerly worked at JP Morgan Asset Management, to drive its plans for this market – which could include an onshore presence.

Currently, given the restrictions on capital outflows, most asset managers have slowed their China expansion plans.

However, it remains very much on the radar for some. As Wong notes: "China is too big a market to ignore and it is a great long-term opportunity, but you need to play it carefully."

In 2017, she says, the big challenge will be to deliver outperformance against a backdrop of increasing market uncertainty. "There were a lot of uncertainties before but these have intensified now. Introducing the right product at the right time will become increasingly tricky."

COMMUNICATION IS THE KEY

It also becomes important to keep the lines of communication with clients open and clear. Especially during market moving events, it's important to handhold clients. After Brexit and the US elections, for instance, OMGI immediately sent out client notes explaining the implications of these developments.

"Distributors appreciate such actions because they know what to tell clients who might panic when such events unfold," notes Wong. "Regardless of whether the market is going up or down, communication is vital for clients."

She adds: "Clients need to understand that funds might suffer a few months of underperformance but if they hold on to them for two years or longer, there is a strong chance of outperformance. In the long term, we strongly believe we can generate alpha."

By being direct and open in its investment positions, she says it makes investors more comfortable to invest with OMGI. ■