

The importance of putting Malaysia's investor needs first

The country's asset managers often focus on profit over client investment needs. However, competition is building, and companies that genuinely prioritise their customers are likely to perform the best, says Teng Chee Wai of Affin Hwang Asset Management.

The business model of many Malaysian asset management companies is not the most progressive in the world.

Many prioritise selling trendy, high risk and high return funds to their clients for big fees, and frequently churn these assets into newly-created funds for another sizeable commission.

As a business strategy it undeniably leads to good profits. But the ethics of this approach are frowned upon by Teng Chee Wai, managing director of Affin Hwang Asset Management.

His firm believes in offering a genuinely open architecture, giving investors the option to buy into whichever fund they wish.

"We believe the focus should be on the client. We're trying to open up the platforms and allow distributors to sell products that fit the client's needs more closely," he explains.

The asset-churning strategy of many of Affin Hwang's rivals are often lucrative – many earn upfront fees of between 2% and 6% each time they sell or churn a client's assets. But the process is rarely in the long-term interest of the client.

PRIORITISING THE CLIENT

Teng says his firm tries to dissuade advisers from pursuing such actions. Instead, Affin Hwang's ultimate goal is to ensure the client gets the best products at the best prices and enjoys the best risk-adjusted returns.

The key here is risk. Clients might enjoy gaining annual fund returns that can often reach 10% or more, but such investments tend to be into high growth emerging market stocks and bonds.

However, such investments are infamously volatile, and the danger is that they unexpectedly fall, causing losses that outweigh appealing short-term gains.



TENG CHEE WAI
Affin Hwang Asset Management

Teng says local clients need to become better educated to understand these market nuances, and his company is keen to help inform them.

“We want to go out there and educate the public,” he says. “We want to explain to them that churning portfolios is a bad idea and that long term investments deliver the real returns.”

He believes educating clients about diversifying assets into different geographies and currencies and about the benefits of holding on to investments over a longer period will help them and the industry as a whole.

Shuffling investments into the latest high-return product or the latest fad is unlikely to deliver the best long-term returns, especially when the cost of doing so is so high.

Teng believes the expense customers have to pay to have their assets invested could prove to be a crucial factor.

The product hasn't caught on in Malaysia yet, but Affin Hwang is working on wooing clients to try their discretionary offering. Teng believes the product will gain much more traction with clients over the next decade.

ASEAN PROSPECTS

Another longer-term goal of Affin Hwang is to expand the services it offers beyond Malaysia's borders.

The Association of Southeast Asian Nations' (ASEAN) collective investment scheme (CIS) is a big opportunity for funds based out of Singapore, Malaysia and Thailand.

The CIS is a regional funds' passport scheme that allows for cross-border fund distribution. Investors stand to benefit as it grants them access to more

regulators to integrate the region. While we aspire to compete in those markets, our priority is Malaysia,” he says.

OVERCOMING CHALLENGES

The gradual opening of Malaysia's asset management industry to CIS funds and the debut of global asset managers in the country also poses local firms with more challenges.

Among them is the need to focus on retaining talent and deliver on both investment promises and match past fund performance.

Teng believes there could also be more consolidation among asset management firms, as companies fail to deliver what they promise or the market requires, and experience an untimely demise.

There are currently 41 approved fund managers offering wholesale funds locally, according to Malaysia's Securities Commission.

“I expect this industry to consolidate. It doesn't make sense to have so many players,” explains Teng.

“The ability to retain talent also gets more and more difficult, especially since the players are now taking the Malaysian market more seriously.”

He believes companies like his that focus on growing the client's wealth first will be the ones that ultimately prosper.

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“Investors are getting smarter and more educated about the fees they pay. I think that is what will change the industry,” he says.

Across the world, professionals are debating about the use of discretionary funds to remedy the commission-driven sales practices that harm customers. Managers are incentivised to deliver high returns because this is the metric that their fees are tied to.

funds, while asset managers get the opportunity to cater to a wider audience in other markets.

Teng feels the prospects offered by passporting are interesting. Yet he says Affin Hwang will continue to focus on keeping the promises it has made to its Malaysian clients for the immediate future. “Everyone recognises that the ASEAN region will get closer over time because of the initiatives taken by the