

# The Vital Importance of Fund Selection and Lessons Learned from Long Experience

*Tuck Meng Yee, Head of Investment Solutions Asia at fund distributor Allfunds, knows just how vital it is for Asia's high-net-worth investors and intermediaries to select the funds they invest in wisely, amidst a proliferation of choice the world has witnessed in the past two decades and more. He gave a presentation at the Hubbis Thailand Wealth Management Forum in Bangkok to explain the principles and how working with Allfunds can help achieve more optimal outcomes for HNWIs.*

**“FUND SELECTION,” YEE REMARKED,** “is perhaps one of the toughest jobs in the investment world for investors and for intermediaries.” For intermediaries, he added, the end-clients might have many different needs and resources, they will have different risk profiles and expectations, different family considerations, different expectations. And once funds are selected, the intermediaries are sometimes faced with a lack of support from the fund managers who had promoted their funds in the first place.

The HNW and mass-affluent investor market is different from the institutional investor market, Yee continued. This category does not invest so regularly, they might not have a deep understanding of the need for diversification, they have modest or little support, they have limited understanding of the investment and markets, especially the more esoteric varieties, and they might not be transparent in their approach to the advisers they do have. Similar challenges exist for many of the wealth management intermediaries, especially the smaller firms who increasingly need the support of larger providers such as Allfunds.



TUCK MENG YEE  
Allfunds

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### **Step back and decide**

With that, Yee mined down to the detail of the fund selection process, noting that there are three core elements, namely quantitative, qualitative, and operational.

Quantitative focuses on the numbers, for example, length of track record, annualised return compared to a benchmark and also to peers, volatility, drawdowns, and performance attribution.

Qualitative involves an assessment of the investment process, the investment team, the investment outlook and portfolio construction. And operational focuses on the structure of the fund, the separation of functions, as well as the risk, settlement and payment protocols.

### **Painting by numbers...**

Commenting on the quantitative aspects, Yee noted that numbers are like paintings, with much of

the appreciation determined by the interpretation and context. And returns must be compared not just to the market but also to their peer fund managers, so selecting the right peer group is also both vital and very difficult.

“There are so many difficult areas to navigate,” Yee observed, “and so many nuances within each of these areas.”

Focusing on the operational aspects, for example, Yee noted that once the investor has a grasp of the quantitative and qualitative aspects, they need to know whether the fund offers a framework solid enough to offer reassurance that money and assets are managed safely, they need to understand who has control over the movement of cash, where the cash is kept, and where are the assets are custodised.

“If, for example,” he remarked, “the custodian goes out of business how long would

it take to get the assets back and think back only to the global financial crisis to realise this is a real issue to consider.”

### **What really matters...**

Yee then went into considerable detail to look at some hypothetical examples of fund analysis based on the three critical criteria he had outlined. “So, what really matters?” he asked rhetorically. “Intermediaries must communicate their experience and how it impacts their understanding of the markets, which are not the same as five or 10 years ago. That communication is important because it is vital to give your clients appropriate transparency.”

He clarified what he means by ‘appropriate transparency’ as it should be offered by intermediaries. “I mean that the clients come to you for advice

and to offer that you must know their backgrounds, so you can offer them the appropriate level of key information to help them make their decisions. One key factor also is diversification of their portfolios, and again to do that you need to adapt your language to the target, so they understand clearly. Recently, for example, I had to explain the wind turbine business hardware and supply chain to the family office of a software developer, and I employed 'stack language' to explain it, and not only did it keep their interest but they

understood what I was saying more clearly. Communication is vital and how you communicate is just as crucial."

**Keeping on top of change**

He also stressed the importance of ongoing communication and fund monitoring. "Whatever your initial premise might be, the fund moves over time, the market moves over time, so you need to be on top of that, you need to be on top of all the usual metrics, and you need to use all sources of information, and alternative data, enabled by technology."

Yee concluded by explaining that as a long-established, highly professional, well-reputed funds platform, Allfunds offers the types of solutions that intermediaries in the modern world of wealth management need for their businesses and their clients. "That," he said, "is why we are today the world's largest third-party fund distribution platform and growing so rapidly in the Asia Pacific region, where we are addressing the needs of numerous major and boutique banks, advisers, asset managers and intermediaries." ■



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## Allfunds: Fast-Tracking its Expansion Path with Wealth Managers in Asia Pacific

Allfunds is today the world's largest institutional fund distribution network, describing itself as a global market place where fund groups can reach world-class financial institutions across more than 45 countries. The firm is now spreading its wings ever more widely, and successfully, across Asia, after having opened its new office in Singapore in 2017, when it secured the backing of the hugely influential Government Investment Corporation of Singapore (GIC), which at the time took a 36% stake in the business.

Allfunds is the leading European B2B platform, working with more than 1,475 fund managers and offering 77,370 funds that are accessed by 625 institutions through 45 different countries. In 2018, Allfunds processed some 10 million trades, all automatically and with no manual intervention.

The key trend Allfunds and its key leaders see in the region is for customers to seek operational alpha, Alexis Fosler, the Allfunds CEO for Asia Pacific, had told guests at a round table discussion Hubbis hosted in Manila earlier this year. She explained that Allfunds wealth management clients are seeking to achieve efficiency, scale and automation, genuinely seeking to leapfrog the competition in terms of technology and thereby giving Allfunds a core, central role because of the firm's ability to facilitate that operational alpha for its partners in the region.

Allfunds only began to ply its trade a few years back in the region, but that the firm has already garnered significant assets under intermediation and Fosler reported recently that the firm's growth track is currently exponential, based on the roll-out of the value proposition that Allfunds offers.

Being non-conflicted, in other words, not in any form competition with any elements of the wealth management providers, is a vital element in the facilitation of the mutual fund industry.

Allfunds knows that digitalisation is not only the front office, but also about trying to streamline the middle and back offices, and that is where the firm plays such an important role in making sure that growth in operations, services and therefore revenues are not impeded by any future bottlenecks that could restrict growth.

Wealth managers today spend 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.

The Allfunds platform removes many of these headaches by connecting electronically to the service providers, fund managers and financial institutions who, through what the firm considers its 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 key, therefore, is to help financial institutions to scale up their businesses without increasing their infrastructure and costs. The Allfunds open architecture does not favour any funds or any providers, instead favouring best of breed solutions for the intermediaries' end customers who then have optimal products to offer at a lower cost and considerably greater ease and speed.

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. And all this is offered within the bounds of the regulatory framework of each country in Asia 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. "With roughly 1,475 fund managers on offer through one single agreement the Allfunds wealth management clients can access them seamlessly and 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," Yee concluded.

