Using Digital Tools to Boost Investment Engagement in Asia's Private Wealth Market

MSCI in Asia works assiduously to help wealth management providers curate investment solutions for their end clients. There is increasing pressure on private banks, fund managers and other players in the global wealth management industry to deliver best-in-class portfolio solutions and investment advisory, and for more than 50 years, MSCI's research-based indexes and analytics tools and solutions have helped the world's leading investors build and manage their portfolios, so it is natural to extend this deep into the world of private banking and wealth management providers. MSCI focuses on four areas of research and solutions, namely index, analytics, real estate and ESG, its fourth area of focus and one that is developing very rapidly indeed. Valentin Laiseca, Head of South Asia Client Coverage, MSCI, was an expert panellist as well as sponsor on behalf of MSCI at our Hubbis Digital Dialogue event of August 5, which focused on how banks and other firms deliver top-flight investment solutions and engagement with the support of the latest data assembly and digital tools. We have summarised some of his very valuable insights from the event in this report.

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VALENTIN LAISECA
MSCI

MSCI serves many of the world's largest global managers, supporting the advisory and investment selection processes by looking at fund and portfolio robustness through a factor lens, market scenarios, structured products analysis and then, finally, impact and sustainability/ESG assessments.

"We provide the tools and services that help to empower clients to make better investment decisions by delivering customised solutions for our clients," said Valentin. "These solutions help the clients better understand investment risk and return, so ultimately this gives them more confidence in their investment process and greater trust that they are building optimal, efficient investment portfolios."

Global coverage

MSCI covers numerous major institutional investors worldwide, as well as the private banking and wealth management industry, who in turn provide their investment advice and expertise to their private investor clients.

"We are one of the largest providers of indexes with more than USD14 trillion in AUM linked to our indexes," Valentin enthused. "We are also a leading provider of analytics, there is the rapidly growing ESG ratings platform, and there's the real estate business, so those four legs drive our P&L. However, we see our mission as bigger than any of the single products on their own, and that mission is to support our clients build better and more sustainable portfolios, especially as we all face a rapidly changing world."

tools to create and rebalance clients' portfolios efficiently."

He added that the MSCI tools are increasingly useful, whether supporting portfolio construction, or fund selection or manager due diligence. "In this difficult environment we all face," he explained, "the private clients out there really do need better solutions, so the private banks and advisors have to offer that, so they come to us for support. In an era of digital disruption, they also need to be able to deliver these solutions faster and more seamlessly, or they will lose out to the FinTechs."

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Unbiased, objective and agile

MSCI has the data, the research protocols and expertise, and is independent as well as unbiased. The firm prides itself on being neutral and agnostic as to products, with no aim to compete with clients, no ambition to provide financial advice, and no intention to manage money.

"We can certainly help to improve portfolio curation and solutions for clients," Valentin explained. "MSCI's mission is to support investors to build better, more sustainable portfolios. We partner with our wealth market clients to help them source personalised portfolios at scale by providing all the necessary building blocks. The starting point would typically be an index, with ESG/climate/thematic data to aid customisation and optimisation

The impact of ESG

Another key area that MSCI emphasises is ESG. Valentin remarked that there is a powerful and growing body of research to indicate that ESG factors are correlated with higher company valuations and profitability.

There are several trends underpinning this growth. There is more scrutiny and understanding that emerging ESG risk factors may impact performance, and what was previously unmeasurable can now be measured and rated. And as there is also more ESG data and more accurate assessment of ESG performance is now possible, more and more fund managers and the providers of those funds are less and less tolerant of corporate ESG weaknesses and failings.

The flagship ESG product

MSCI's flagship ESG rating research product, MSCI ESG Ratings, has become a core standard for ESG ratings globally, Valentin reported, much like the major brand name credit ratings agencies are the standard for rating borrowers and their obligations. And the firm has ESG Fund Ratings that looks at funds based on the ESG qualities of their portfolio, providing greater ESG transparency for more than 32,000 equity funds, fixed-income funds and ETFs globally.

MSCI's focus in its ESG rating process is two-fold. First, the firm is looking to assess corporate risks from an Environment, Social, or Governance perspective that could affect the enterprise value and of course the share price.

And secondly, MSCI seeks to understand what the management is doing to control or to improve or mitigate this risk. Its own research shows how on average, companies with higher ESG ratings typically tend to show better long term financial performance, , yet also on the flip side, typically exhibit lower tail risk.

"We can do much to help increase client retention with value-added insights," said Valentin. "Differentiated content is critical in order to drive client engagement and adoption of the proposed solutions. We find ESG, climate and thematic more and more relevant these days, especially as we see the rise of a new generation of investors. An advisor could showcase how a new proposed solution lowers the carbon footprint of a portfolio and how that may translate to the number of flights taken in a year. Another investor may be interested in how his/her portfolio aligns with the UNSGD goals like quality education or clean water. Wealth managers that offer this level of content differentiation will be in a better position to drive retention of ESG and climate-conscious investors."

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Risk mitigation improves with ESG

"Using ESG metrics, there seem to be fewer incidences of the share price being affected by either idiosyncratic tail risk or any systematic risk," Valentin elucidated. "Accordingly, from our perspective, we can argue that ESG provides premium risk mitigation for investors, while on the other hand, companies which score lower on the ESG ratings typically suffer a higher cost of capital and increased volatility in the share price."

Surveying the ESG market

He also noted that the global pandemic has highlighted both the value and the role of ESG and is accelerating adoption among institutional investors, according to the respondents of MSCI's recent 2021 Global Institutional Investor Survey.

The recent survey of sovereign wealth funds, insurers, endowments/foundations and pension funds found that 79% of investors in Asia Pacific (and 77% of investors globally) increased ESG investments "significantly" or "moderately" in response to COVID-19, with this figure rising to 90% for the largest institutions (over USD200 billion of assets). Fifty-seven per cent of APAC investors expect to have "completely" or "to a large extent" incorporated ESG issues into their investment analysis and decision-making processes by the end of 2021.

Dealing with a changing world

The combination of climate-related events, such as devastating wildfires, floods and droughts, and a global pandemic have accelerated the paradigm shifts on ESG and climate change. "Once an issue for 'green funds' and side-pockets, ESG and Climate are now firmly established as high priority issues," said Baer Pettit, President and Chief Operating Officer of MSCI, when the firm released the survey findings. "2020 marked a profound shift in the way institutions invest as many investors have recognised that companies with strong governance, environmental and social practices have outperformed during the pandemic," he added.

The survey found that when exploring future ESG investments, investors said they are putting greater emphasis on the "S" in ESG, with over a third (36%) wanting "Social" to comprise a larger proportion of the mix in 2021. This increases to 45% in Japan, where there is a strong government focus on gender diversity.

"ESG and climate change are being firmly established as top priorities for investors in Asia Pacific," Valentin concluded, "with climate risk deemed among the top three most impactful trends on the way the survey respondents will invest over the next three to five years."

A holistic perspective for better client experience

With client centricity at its heart, MSCI is also aiming towards an increasingly holistic view rather than a siloed approach in order to provide a world class client experience. The firm might have four lines of business - index, analytics, ESG and real estate - but it aims to view all these areas and the solutions together holistically to build integrated or bespoke solutions for clients, empowering them to build better portfolios

"MSCI continues to be very forward-looking," Valentin reported. Accordingly, he explains that MSCI is looking more holistically at market risk factors. "We believe that certain factors are more persistent over time," he explains, "so we look at companies not just on market capitalisation, but increasingly through characteristics such as value, yield, momentum, quality, size or volatility. The persistence in these stock-specific factors helps determine asset selection and therefore performance."

And that is in part why following this same theme of future-focusing the research and data, MSCI in 2018 had already launched its mega-trend indices, looking at big picture themes such as the ageing society, cybersecurity, robotics, efficient energy, smart cities, the digital economy, future mobility, disruptive technologies and the nextgens/millennials index, the last of which tracks how they consume and invest.

Seeking best-in-class solutions

Valentin therefore observed that the sourcing of the best-in-class products must take place within the context of this much wider-angle perspective of the world.

"When analysing products and running manager due diligence, it is key to have transparency of the underlying holdings of the fund/ETF," he reported. "This transparency allows us to provide a full range of analytics including stress tests, risk contributions, performance attribution as well as ESG ratings, climate scores to assist managers selecting the most appropriate fund for their needs."

Transparency – a vital ingredient

Valentin also zoomed in on the vital importance of transparency. "It is vital to align the right funds with the right analytics so that you can extrapolate how the different funds behave under different scenarios," he observed. "For example, you won't be able to come up with an ESG rating on a fund if you don't have the underlying transparency, which we consider essential when it comes to product creation."

He added that related to product creation, MSCI indexes are the basis for a large number of structured products. "When it comes to structured products, we have collaborated with banks in Singapore as well as elsewhere on successful launches based on our thematic indexes where the interest levels remain high."

Additionally, MSCI sees alternatives as a growing asset class across the board. "But," Valentin said, "you have to justify why, so the ability to count on data and analytics that can help offer insights into how the client portfolio is benefiting from incorporating alternatives is going to be a selling factor."

Valentin clarifies that MSCI is not a creator or provider of digital platforms but provides its content analytics through those digital platforms if the client so wishes. "Sometimes our clients – for example DBS, a very important partner here in Asia – can pull our content onto their own digital platform and fully integrate it into their workflows," he added.

Direct indexing – a trend to watch

He also remarked on an interesting emerging trend that is especially noticeable in the US, namely direct indexing.

"Direct indexing is about offering the opportunity for investors to own direct holdings via SMAs, or separately managed accounts," he explained. "That is important because it allows a high level of customisation and also provides cost benefits to the client. Customisation used to be something that was only offered to the HNW and UHNW segments, but now it is available to a far wider set of clients. This is made possible thanks to some technological advancements such as fractional shares, low trading commissions and portfolio re-balancing technologies."

In fact, he said that direct indexing is worth USD350 billion in the US, and it is projected to go to USD1.5 trillion by 2025, based on certain reports from Oliver Wyman. "The trend clearly needs watching as it will come to Asia, and make a major impact," he added.

The MSCI door is open

His final comment was that the MSCI door is open for business in Asia. "In any of our areas of speciality and expertise, we are ready to work with any of the banks and wealth management providers here in the region on both our standard and bespoke or tailored offerings." ■