Wealthy Thais gaining appetite for riskier investments

Regulatory reforms have paved the way in Thailand for growing interest in offshore investing. Attention now needs to focus on the infrastructure to facilitate this.

Thai investors are now showing increasing interest in investing offshore in their search for higher yield as well as for diversification.

This is a welcome development, given their tendency to be relatively conservative. They have generally opted to hold cash or cash equivalents, or low-risk fixed income products – perhaps in part based on a lack of understanding of financial instruments.

It's a pattern seen across the region, especially in emerging economies. The acceptance of mutual funds as a savings vehicle remains relatively low; yet interest in riskier investments is growing.

According to a report in The Bangkok Post, there are about 5 million mutual fund accounts in Thailand, which has a population of 68 million.

But while this is a fast-developing nation in many ways, its local equity markets are a poor proxy for that growth. This is likely to be one reason why the bias towards local investing is fading, according to some product and investment specialists within wealth and asset management.

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REGULATORY ROADMAP

The appetite for what's on offer offshore has been further fueled also by the progressive approach of the regulators – the Securities and Exchange Commission (SEC) and the Bank of Thailand.

They have been working on gradually easing regulations in a bid to allow more overseas investing as part of broader goals to liberalise capital controls in the economy.

In early 2016, for example, a far-reaching reform allowed qualified Thai investors to buy offshore funds directly from a broker or bank, bypassing the master-feeder scheme that is predominantly used by foreign fund houses to gain a footprint in the domestic market.

The expectation among market practitioners across asset and wealth management is that retail investors could soon be given the same treatment (likely in 2017).

The SEC also relaxed rules for mutual funds to expand investments in non-listed infrastructure funds issued both locally and overseas.

Nevertheless, while there is some interest from local investors in offshore investing, the concept hasn't taken off in a big way yet, say product specialists.

This is primarily because large distributors like banks don't have all the necessary systems in place to enable them to access foreign exchange, maintain holdings and execute settlements – all of which are essential to help clients buy and sell internationally.

Further regulatory easing is happening in the form of new regulations coming into effect which replace earlier, more stringent, rules on investing in securities or derivatives denominated in foreign currencies that were issued or offered offshore, according to an update by Baker Mckenzie.

The new regulation allows local licensed business operators to market (apart from conducting roadshows) and offer any offshore products to Thai-based investors, as long as the type of offshore products being marketed and offered are covered by the scope of their license.

All kinds of offshore products can be marketed and offered to Thai-based institutional investors.

For HNW investors, only offshore products under the supervision of a regulator can be offered, provided that such products are not subject to a trading prohibition order by the regulator, says Baker McKenzie.

FEEDER-FUND FASCINATION

In the meantime, foreign asset managers say they will continue to use the master feeder or fund of funds schemes as their preferred mode of reaching out to a slowly-growing local investor base.

A Cerulli report underlines the fact that these find houses – and especially those with no onshore presence in the region – are quite comfortable with these structures as they offer the opportunity to provide a range of investment products.

A key component of success under a feeder-fund strategy lies in the fact that it requires a local partner with strong distribution capabilities.

Local asset managers are also keen on such arrangements, especially where they might lack in-house expertise of foreign markets. Tie-ups with foreign fund houses can also introduce improved track records, branding and marketing collateral to their clients.

While a few domestic Thai firms might start developing their in-house capabilities, in the medium term, many market practitioners believe the master feeder structures are likely to continue to hold appeal for the majority of local players.

In fact, even the recently-introduced ASEAN Collective Investment Scheme framework hasn't done much to change the status quo.

Currently Singapore, Malaysia and Thailand are participants in this initiative, which allows funds registered for sale in one participating jurisdiction to be offered in other, via a simplified registration process.

For now, feeder funds remain the dominant way for Thai investors to access offshore products.

However, given the easing of capital controls, it will only be a matter of time before investors start to look at their alternatives – based also on the cost-effectiveness of each. ■

Foreign appeal

In markets such as Thailand, many foreign asset management firms believe it makes little sense for to compete with local fund houses in terms of investing in domestic bonds and equities.

Instead, the focus should be on leveraging each others' expertise – incorporating the edge in local investing ideas that Thai fund houses have with what foreign firms can bring in when it comes to global bonds and equities.

According to several product gatekeepers and asset managers in the Thai market, foreign investment funds (those with at least 80% of assets invested overseas) have performed remarkably well in the past few years.

A Cerulli report said that foreign equity fund assets in Thailand climbed to USD6.3 billion in 2015 from USD3.1 billion in 2014. And local media reports suggest that 2016 was a good year for foreign investment funds as well.