

# What's driving structured products in Asia?

*At roundtables co-hosted by Morningstar and Hubbis in Singapore and Hong Kong, leading structured product providers list out their main priorities for the year as well as the key trends they expect to see in the coming months.*

Education of front-end staff and enhancing the use of technology are the top priorities for leading structured product providers in Asia.

While the main goal remains that of addressing the client's key strategic

As one participant noted, the entire process from pre-sales to post-trade remains open to automation.

Currently, much of the pricing arrangement, execution, capturing of post-trade data etc, is done manually.

Depending on how large the scale of operations is in the structured products business, companies were open to spending moderate to large sums of money on automating different parts of entire process.

Another big priority with the product providers was education, not just of the client but also of the relationship managers (RMs) who have the task of convincing clients of the merits of investing in structured products.

As one participant said, it takes a while for RMs to understand structured product strategies themselves.

Only when RMs themselves become more sophisticated in their understanding of financial products, can wealth managers truly expand their offerings.

The need to be up-to-date with the latest in the market is important as well

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needs through structured products, there was plenty of scope for improvement, especially on the operational front, according to market participants.

Most of them also said the increased use of technology would also improve efficiencies by lowering costs and boosting revenues in the long term.

because typically, most Asian clients are multi-banked (surveys have shown they tend to have four to five accounts spread across different banks).

RMs, therefore, must understand not only product features but also market trends if they want hold intelligent conversations or offer opinions to clients.

Among the most popular structured product strategies are dividend and income-generation.

The equity-focused strategies use custom indices created by research organisations such as Morningstar to create market-linked products.

Currently, the markets are in a good place, so demand for structured products in Asia has soared in 2017.

However, as one participant noted, markets being markets, it's important to be prepared for the eventuality of a downturn.

Given that we are already so far into the economic cycle, the risk of a down-

turn definitely exists so a cautionary measure, investors should build in some defensive attributes in their structured products, according to one specialist.

Another expert recommended adding macro hedges in structured products to potentially safeguard against some key risks, while ensuring a sustainable income stream.

however, a growing list of asset managers have been adding ESG specialists to their investments teams based in the region and overseas to help them integrate ESG research into the screening process across asset classes.

While the awareness of ESG investing is growing, how investors perceive the concept varies considerably, according

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**EYE ON ESG**

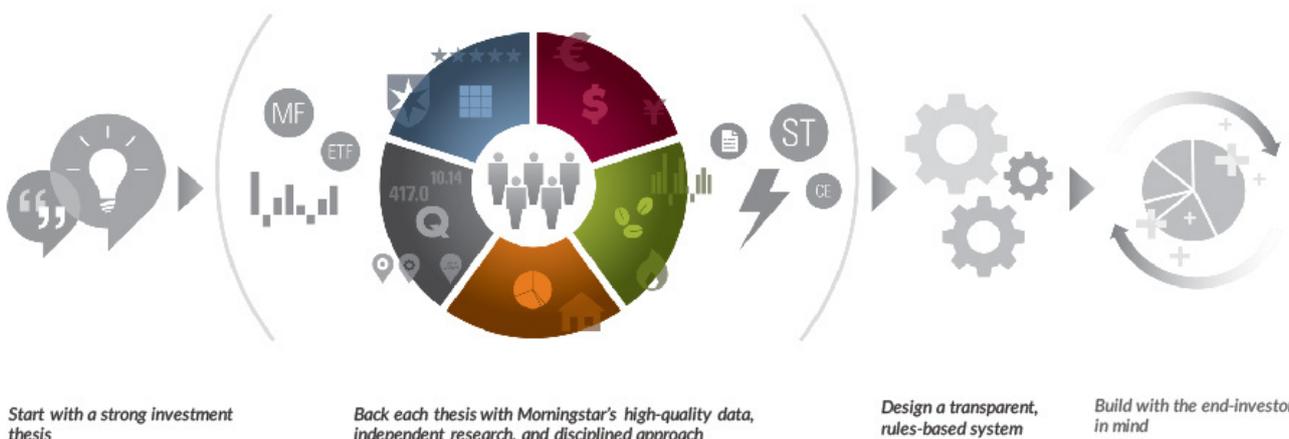
Participants also expected to see two trends take-off in Asia in the medium term: ESG investing and factor investing.

ESG investing has received moderate attention from investors in Asia;

to participants. For some, it is about generating alpha through investing in companies that are environmentally and socially conscious and implement sound governance practices. For other investors, it's about investing in companies that are socially and environmentally

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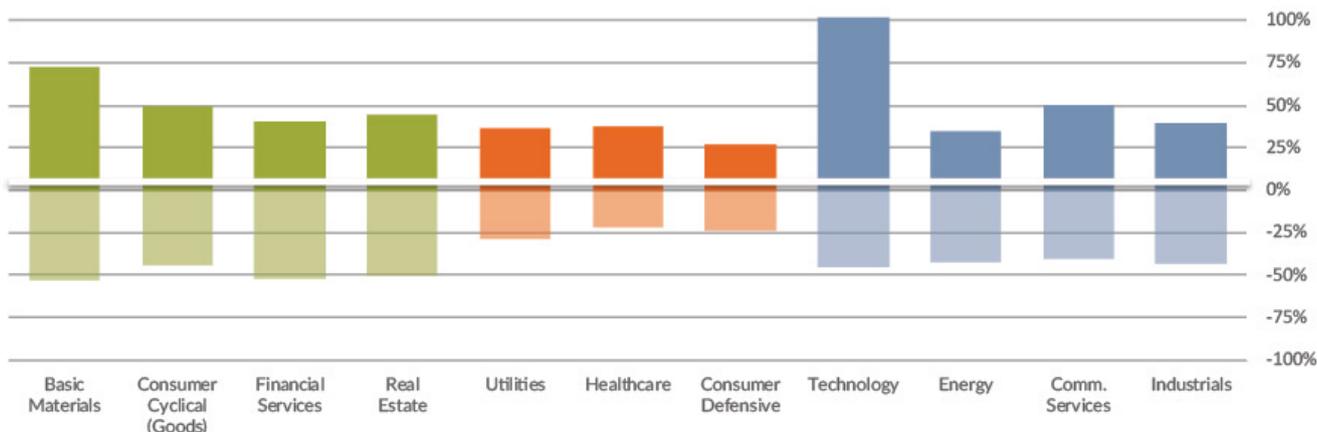
**MORNINGSTAR INDEXES - APPROACH TO STRATEGIC BETA**



Source: Morningstar

## SECTOR INVESTING: RANGE & VARIABILITY OF RETURNS

*Morningstar Global Sectors Annual Returns, 2001-2016*



aware and not necessarily about generating superior returns.

As one participant noted, there needs to be a clear understanding of what the goals are of investing with an ESG focus – and realising that ESG-focused strategies might or might not perform in the same manner as conventional strategies.

Morningstar has a sustainability rating for funds that was introduced last year. It enables investors to evaluate how well the companies in a fund's portfolio are managing the ESG factors relevant to their industries.

The rating makes it possible to find sustainable funds even if they aren't marketing themselves specifically as products that support a socially responsible investing approach.

Morningstar has also launched a Sustainability Index Family, designed to highlight companies that score well on ESG criteria while maintaining a similar risk/reward profile to the overall market.

It's a trend that hasn't caught on in Asia yet, although most participants expect regional investors to find the approach useful over time.

### FACTORING IN GROWTH

Another trend expected to gain traction over time in the region is factor investing.

As BlackRock explains on its website, factors are the foundation of all portfolios – the broad, persistent forces that have driven returns for stocks, bonds and other assets.

Understanding how factors work can help investors to capture their potential for excess return and reduced risk. Common factors include size, investment style and risk.

Instead of picking individual stocks, factor investing constructs an index based on specific, pre-determined characteristics (factors) shared by groups of stocks.

Smart or strategic beta strategies are an efficient, low-cost way to access factors.

Research organisations such as Morningstar are keen to develop custom indices for products designed with strategic objectives in the region.

At a global level, the firm is also in talks with several ETF providers, along with structured product providers, to create investable products based off its global suite of strategic beta indices.

Given that the pressures on active fund managers, there seems to be little doubt that index trackers are set to attract more investors.

In addition, given the cost sensitivity of Asian clients, strategies such as smart beta are expected to take off strongly in the region over time.

Overall, the participants at the roundtables expressed strong optimism that custom indices would continue to give a strong boost to the structured products business in the region, which has already experienced superlative growth so far this year. ■