ASSET MANAGEMENT YEARBOOK 2014

hubbis

January 2014

FOREWORD

This is our inaugural edition of a new flagship publication that will become an annual outlook for the wholesale distribution businesses of asset management companies in Asian wealth management.

It is being published at a time of significant change for the industry.

A variety of regulatory, cost and other pressures continue to impact the bottom lines of asset management companies. At the same time, revenue per assets managed is shrinking. When combined with the intense competition that firms face, exacerbated by many newcomers to Asia, plus greater demands by distributors on the levels of service support they need, having a clear and focused wholesale distribution strategy is more important than ever before.

Added to this is the investment piece, against the backdrop of a volatile and unpredictable market environment. For most fund managers, the management of the process of Fed tapering and the real or perceived risks and changes involved is the most immediate challenge.

There is reason to be optimistic. Many practitioners see significant opportunities moving into 2014 as investors across the world display a more global outlook, reflected in their investment decisions and preferences. Ultimately, investors must stay focused on the long term, and understand the importance of asset allocation – maintaining a balanced portfolio between equities, fixed income, alternatives, etc.

And after years of waiting for an Asian equivalent of Europe's successful UCITS platform for mutual funds, three possible versions – including the Hong Kong-China mutual recognition scheme – are now in play.

To ensure the content in this Yearbook is strategic, insightful, relevant and targeted – we interviewed more than 60 senior individuals from the product gatekeeper and product manufacturing communities in the last quarter of 2013.

The chapters reflect their views. They look at some of the ways for asset management firms to differentiate their business and products. There is also commentary and analysis on the evolving role of distribution in a region where expectations of a fee-based future are driving wealth managers to review their processes and models.

I hope you enjoy reading this publication and derive value from it. Please do send me your feedback, at editor@hubbis.com.

Andrew Crooke
Editor
Hubbis

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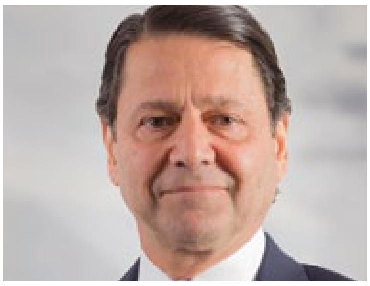

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We're there for you.
And there. And there. And there.
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3% to 5%

The penetration of mutual funds within private banking portfolios is somewhere between 3% and 5% on average.
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15, 8, 3

Of the 15 markets in the region where mutual funds are actively sold, eight of them have, through three proposals, got together to see whether they can agree on a "funds passport".
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60%

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70:30

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A PIVOTAL TIME FOR ASSET MANAGEMENT IN ASIA

A VARIETY OF REGULATORY, COST AND OTHER PRESSURES CONTINUE TO IMPACT THE BOTTOM LINES OF ASSET MANAGEMENT COMPANIES. WHEN COMBINED WITH THE INTENSE COMPETITION THAT FIRMS FACE, EXACERBATED BY MANY NEWCOMERS TO ASIA, HAVING A CLEAR AND FOCUSED WHOLESALE DISTRIBUTION STRATEGY IS MORE IMPORTANT THAN EVER BEFORE.

Just as the Asian wealth management industry finds itself at a tipping point, the compounding requirements on asset management firms in the region have never been higher as they vie for the vast amount of private wealth.

"It is a period of significant upheaval in the asset and wealth management industries, with big changes to come," says Zeno Staub, chief executive officer of Bank Vontobel.

More competition yet the need for greater levels of client education leads to a lot more pressure on the asset management industry. Coupled with the burdensome regulatory landscape and greater demands by distributors on the levels of service support they need, the environment is more and more stressed.

The cost of doing business has also risen significantly. This is especially the case in relation to compliance, where it has gone from 5% of staff costs to somewhere between 10% and 20%, says Hugh Young, managing director of Aberdeen Asset Management Asia. "Regulations continue to get more and more onerous, especially given that rules can often differ from one jurisdiction to the next."

At the same time, revenue per assets managed is shrinking.

"That [combination] can appear in terms of the psychological impact it has on individuals working within the organisation," says Pius Zgraggen, chief executive officer of independent asset manager OLZ & Partners.

Such challenges are forcing senior management to take stock of their strategy and clarify their vision.

Ultimately, regardless of the direction that an individual firm chooses to take, the one constant is the need to be focused. "Multiple models will thrive, whether based on scale and cost, or structuring solutions, or the core business of being more focused on the asset management concept of running money," says Staub.

Zeno Staub

Bank Vontobel

"It is undoubtedly a period of significant upheaval in the asset and wealth management industries, with big changes to come"

FUNDS PENETRATION

Regardless of the headwinds, optimism for mutual funds appetite remains. "Asia will continue to grow in 2014 and all markets hold unique promise,

as each market offers opportunities at their different stages of growth and appreciation of investment products," says Mark Browning, managing director for Franklin Templeton Investments in Asia.

According to Gary Tiernan, global head of investment advisory and client segment management at Standard Chartered Private Bank, a growing number of clients in Asia see the benefits of a fund-based approach, whether it is actively managed or via an ETF.

"Using funds to implement a particular asset allocation has a lot of value," says Tiernan.

The penetration of mutual funds within private banking portfolios is between 3% and 5% on average.

Growth will therefore come from low levels, but mutual funds are an efficient and effective product for separately managed accounts platforms, for example.

Adds Henry Hamrock, head of Singapore operations at Western Asset Management: "There is still so much potential in Asia based on the amount of savings and the need for people to save more effectively given the demographics and the ageing population."

Mark Konyn

Cathay Conning Asset Management

"A lot of asset managers which have for a long time considered coming to Asia are now doing so. This is likely to lead to more specialist capabilities in the region"

In the traditional markets for mutual funds, such as Taiwan, Singapore and Hong Kong, the majority of excitement now is coming more from the institutional and wealth management segments than retail.

"The take-up of income strategies has been significant – especially in markets like Hong Kong, Singapore and Taiwan where interest rates are low – has provided a cross-over into mutual funds," says Hong Kong-based Mark Konyn, chief executive officer of Cathay Conning Asset Management.

Whether this contributes to a broader acceptance of mutual funds, however, is yet to be seen.

When it comes to more of a discretionary approach, some clients have different perception about mutual funds compared with giving a mandate to a bank to manage on a balanced basis.

Maybe this is because they can buy and sell on any given day, so feel like they retain more control, explains Tiernan.

"The next exciting leg will be what will happen in markets such as China, Indonesia and also Japan during this significant transitionary period," adds Browning at Franklin Templeton.

Hugh Young

Aberdeen Asset Management Asia

"Regulations continue to get more and more onerous, especially given that rules can often differ from one jurisdiction to the next"

A MORE CROWDED LANDSCAPE

Asia's growth story is encouraging a lot of asset managers which have for a long time considered coming to the region to now do so. "This is likely to lead to more specialist capabilities in the region, which is a positive development and can help drive demand," says Konyn.

Indeed, it is notable that a lot of the newcomers in the Asian asset management space are taking a more selective and focused approach – either in terms of their product offering or the types of distribution partnerships they are looking to cultivate.

This is perhaps inevitable, given the need for agility and the importance of them being able to deliver specific products based on the appetite of end-clients in the mass affluent and high net worth (HNW) segments.

It is also what product gatekeepers are seeking for their platforms, too.

"The large, established names will always be there as leading firms, but by being flexible in terms of product development and client service, newcomers can create good reputations and foundations upon which to build," says Peter Swarbreck, head of Asia Pacific at Jupiter Asset Management.

Ultimately, it is all about performance and investment returns.

And assuming the fund manager can deliver, there is a growing mood among investors towards an appetite for something or someone new, he adds.

Pius Zgraggen

OLZ & Partners

"Revenue per assets managed is shrinking at the same time as factors such as rising costs are commonplace"

"Smaller firms who are hungry and have something to offer will gain good traction. This is based on them getting their names out there, teaming up with the right distributors, and then delivering," explains Swarbreck.

For example, he says Jupiter is looking to develop more Asian product registered in the region, including a fund of fund offering, and creating share classes more tailored to the appetite of the local market. There is also more scope for passive products, adds Swarbreck, especially since many active managers have been unable to perform. "That is one of the reasons why I think Asian product will become increasingly important, where the chance and capability to outperform is greater than in the developed markets."

Greater competition from passive managers, which leads to a compression of fees, might lead to some consolidation going forward in line with tighter profit margins, predicts Lennie Lim, managing director and regional head for Legg Mason in Asia.

"We also see more pricing pressure from distributors as they find profitability a challenge."

Hamrock at Western Asset Management also expects a certain amount of consolidation. "Unless new players have something different to offer, they will find it very challenging and expensive to put in place the required infrastructure around compliance, operations and sales support, for example, to be successful," he says.

For example, adds Konyn, there has been attrition in the alternative part of the market due to the higher levels of compliance to support smaller firms.

Size is especially important when it comes to tackling and meetings the various compliance requirements,

Henry Hamrock

Western Asset Management

"There is still so much potential in Asia based on the amount of savings and the need for people to save more effectively"

agrees Franck Peltier, chief operations officer, asset management, and Hong Kong country manager, at SunGard.

The more manual the processes, for example, the greater the risks they face, as well as the time it takes for reconciliation, he explains.

Smaller market players therefore need solid platforms in terms of administration and risk management. "A number of these firms realise the need for greater automation, but don't want to invest too much into technology," says Peltier. "We therefore provide a cloud-based solution so that it can give them a plug-and-play option. We are also seeing more front-to-back requests."

KEEPING UP WITH PEOPLE DEMANDS

The rising costs for asset managers are also related to people. This can be seen by looking at the average wage inflation in general in Asia; Indonesia runs at about 8% per annum, for example. This has made the race for talent and the importance of retention a priority for fund providers.

There are different ways firms can respond. Trying to put in place training, development and mentoring schemes is one option.

"We do this to match the ambitions [of our staff] and ensure they feel they can build a career with us," says Vincent Camerlynck, chief executive officer of BNP Paribas Investment Partners in Asia Pacific.

While this is more visible in some markets than others at the moment, Camerlynck says the driver is simple: to make a conscious and voluntary effort to help them further their careers – beyond the simple monetary aspect of their jobs.

Philippe Graffart

Nordea Asset Management

"A lot of the initiatives relating to fees and new share classes at many European and US banks is driven out of their head offices elsewhere in the world"

Training is also a key differentiator for BNP Paribas Investment Partners in terms of developing relationships with its distributors.

Five years ago, for instance, it created an Investment Academy to offer wealth managers onsite training on products and structures – without there being any type of sales pressure.

"In 2013, for example, we completed more than 800 of these sessions around the world," explains Camerlynck.

"And we might get 50 to 60 people coming along to each of these events."

For example, FundQuest Advisor, which the firm owns, recently did a session in Hong Kong to explain to its distribution partners how it does fund selection, to give the distributors pointers about how to help direct the decision-making for their own investment platforms.

GLOBAL SHIFT IN FEE FOCUS

In terms of fees, asset management professionals predict these will have a big impact on the industry in 2014, both in terms of wealth managers and product providers.

"MiFID and RDR, along with the implementations of the bans on inducements in The Netherlands, Switzerland and other European countries, will impact the market," says Andrew Hendry, managing director for M&G Investments in Asia.

"This includes an impact on the Asian branches of those private banks headquartered in the relevant European countries."

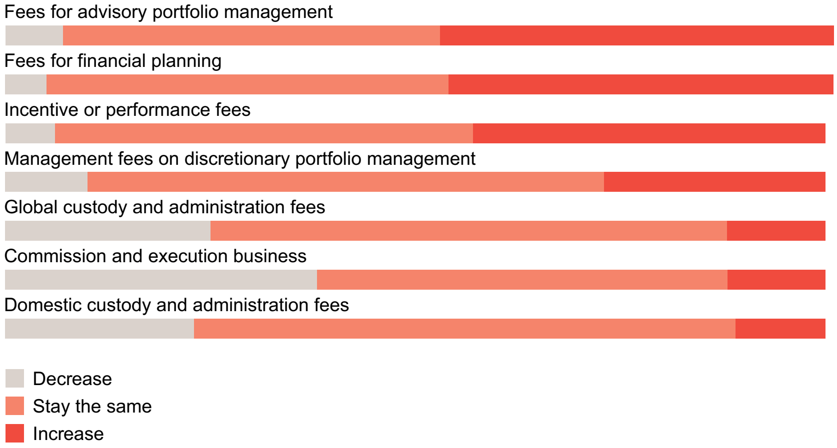
The desire by private banks to generate fee-based income has become increasingly intense in recent months in the wake of global regulatory developments banning inducements.

Reduced revenue for private banks is not coming at a good time given the other pressures they face.

"This will have an impact on private banks which are already confronting higher talent costs and lower recurring revenue," explains Andrew Hendry, managing director for M&G Investments in Asia.

And it won't be easy for many firms to change their business models. "So much of the wealth management business in Asia is transaction-related that

EXPECTED CHANGES TO PRICING ARRANGEMENTS OVER THE NEXT 2 YEARS



Source: PwC Global Private Banking and Wealth Management Survey 2013

it has been difficult for the industry to justify charging a fee for the service," says Hugh Young, managing director of Aberdeen Asset Management Asia.

"Clients in Asia will need to be convinced that paying for advice is better than the current model where they pay through transaction fees," adds Bryan Henning, head of global research and investments for Asia at Barclays.

From more of an investment and portfolio management perspective, that advice could range from the composition of a strategic asset allocated portfolio populated by a firm's high conviction fund, equity and/or bond ideas, to a simple proactive phone call to a client advising what to do with a Euro holding based on the previous night's market movements, he explains.

"Offering good service means giving clients access to a night desk, for example, or being able to instantly provide them with information on a particular company the client might want to invest in after hearing about a new bond issuance or an earnings announcement," he says.

Adds Henning: "Essentially, quality advice is comprised of recommendations based on best-in-class market research and insights offered by specialists."

Ultimately, charging fees is linked to trust, and the only way to build trust is around transparency.

Says Dennis Harhalakis, head of products and services, private banking, at CTCB Private Bank: "We're able to be 100% transparent over our approach and our fees because we're a new organisation in this space."

"Unlike some of our competitors we don't have heavy cost burdens around technology and other areas. We are competing on the basis of service quality and the performance of our advice."

He says the Chinatrust value proposition is based on a portfolio advisory model with a management-fee concept which facilitates total alignment between the bank's interests and those of the clients.

Meanwhile, some asset managers are starting to offer institutional clean share class programmes with the inducement bans in mind.

Being able to offer new share classes is not technically difficult, but it requires a lot of administration and pre-planning to include the options within the initial prospectus.

This plays into the hands of those asset management firms with the scale and experience.

Bryan Henning

Barclays

"Clients in Asia will need to be convinced that paying for advice is better than the current model where they pay through transaction fees"

SERVICES CLIENTS PAY FOR NOW - AND SERVICES THEY ARE LIKELY TO BE WILLING TO PAY FOR IN 2 YEARS' TIME

Source: PwC Global Private Banking and Wealth Management Survey 2013

"Smaller asset managers might find it to be a burden and time-consuming, meaning they cannot be as responsive to market demand," explains Philippe Graffart, head of fund distribution for Nordea Asset Management in Asia.

On the other hand, some private banks are ahead of the curve.

A handful of firms operating in Asia are implementing fee-based programmes so that they don't need to rely on trailer fees from asset managers.

UBS Wealth Management, for example, is introducing a new way to generate income in today's environment. It will do this by charging clients a flat fee in order to cover transaction costs.

"A lot of the initiatives relating to fees and new share classes at many European and US banks are driven out of their head offices elsewhere in the world. So it will be a natural extension for these trends to come to Asia," says Graffart at Nordea.

READYING FOR CHANGE

In addition to costs, compliance and competition, asset management firms cite another game-changer for the industry on the horizon: funds passporting – which is covered in more detail another chapter.

Based on the proposals in three separate schemes, cross-border fund sales within Asia look like becoming much more commonplace in the not-too-distant future. However, many details and implications need to become clear first before firms are able to take any concrete steps.

What is clear, though, is the excitement it has stirred in the market, along with the new entrants it has encouraged to finally make a move and set up local operations.

According to Young at Aberdeen Asset Management Asia, a passporting regime would be ideal, if done in a coordinated way, as it would lower the costs of operations and doing business. "Avoiding all the local registrations would make life a lot easier," he says. "However, how to implement it seamlessly is not very clear." ■

Dennis Harhalakis

CTCB Private Bank

"The fee model requires more explanation and more time to be accepted, and it doesn't work for everyone"

STRATEGIC PARTNERSHIPS THE KEY FOR A PROFITABLE 2014

LENNIE LIM, MANAGING DIRECTOR AND REGIONAL HEAD FOR LEGG MASON IN ASIA, IS POSITIONING HIS BUSINESS TO RESPOND TO GROWING DEMAND BY WHOLESALE DISTRIBUTORS FOR BEST-IN-CLASS PRODUCT AND MORE COMPREHENSIVE SERVICE SUPPORT.

One of the consequences of regulatory crackdowns across financial services is an increasing effort by wealth managers to put their clients' interests first.

As a result, this is also changing how they look to source products for their own platforms.

"A lot of our distributors are looking for best-in-class as they shift their focus away from in-house products – which might not show that the adviser is acting with the client at the forefront," says Legg Mason's Lennie Lim, managing director and regional head in Asia.

Asset management firms therefore need to respond accordingly. For Lim, part of Legg Mason's value-add is based on the global distribution of its mutual funds. "This gives one single point of contact for my wholesale distributors to about nine different affiliates as part of the group," he explains.

DEVELOPING STRATEGIC PARTNERSHIPS

Yet the support that distributors now require from asset managers extends beyond product. "Part of ensuring we have best practices involves building strategic relationships with our distributors," says Lim.

"We realise that we cannot be all things to everyone, and we don't want this," he adds.

In particular, as regulators in Asia start to introduce regulations that will create less of a reliance on incentives for making product sales, there is a growing need to provide more advice and a greater level of transparency in the overall service.

"We are in discussions with our partners about how we can help them," explains Lim.

This might involve providing market updates for advisers, or training them on products or investment knowledge, for example.

For those providers which go the extra distance in offering these services, it pays off in terms of the relationship, he adds.

"Clients also appreciate product providers which can maintain their service levels in all market conditions."

Lennie Lim
Legg Mason

Indeed, investment performance only contributes one-third to the business, he explains.

The rest is about product innovation and having the right distribution infrastructure to provide good access for our distributors. ■

PREPARING FOR AN ASIAN FUNDS PASSPORT

THE PROSPECT OF A LOT MORE CROSS-BORDER FUNDS DISTRIBUTION ACROSS ASIA IS AS EXCITING TO EXISTING MARKET PLAYERS AS IT IS ALLURING FOR NEW ENTRANTS. DETAILS ARE LACKING AND THE TIMEFRAME IS UNCERTAIN, BUT ONE THING IS FOR SURE – IT WILL HAVE AN IRREVERSIBLE IMPACT ON ASSET MANAGEMENT IN ASIA.

Mutual recognition and funds passporting in Asia promises to be genuinely game-changing for the asset management industry. Of the 15 markets in the region where mutual funds or unit trusts are actively sold, eight of them have, through three proposals, got together to see whether they can agree on a "funds passport".

Despite the schemes generally being light on details at the time of publishing, the industry is broadly positive and excited about this new potential that now finally looks like becoming a reality – at least at some point in the near future.

Stewart Aldcroft

Citi

"After years of waiting for an Asian equivalent of Europe's UCITS platform for mutual funds, three possible versions have come along in 2013"

"After years of waiting for an Asian equivalent of Europe's UCITS platform for mutual funds, not one but three possible versions have come along in 2013, providing both global and local fund managers much to think about when planning the future for their businesses," says Stewart Aldcroft, senior advisor and managing director at Citi Securities and Fund Services.

A LONG TIME COMING

Asia Pacific has suffered from the absence of rules to allow mutual funds or unit trusts established and managed in one country to be sold into another – except in certain cases for some cross-border funds between Hong Kong, Singapore and Taiwan, explains Aldcroft.

European UCITS vehicles have facilitated the offering of funds in these three jurisdictions, but being domiciled in Luxembourg or Dublin means they require approval separately by local regulators in each country.

And markets such as Indonesia, Malaysia, The Philippines, Sri Lanka, Thailand, Vietnam, China and India offer no real solution to cross-border fund distribution.

Talk among governments and the funds industry about a regional vehicle to allow collective investment funds to be manufactured in the region and sold across multiple countries has been just that – talk.

The most commonly-cited hurdles among industry players have been the diversity of markets, lack of a common currency or legal structure, and competition between jurisdictions for "financial hub" status.

Snapshot of the three current funds passport" options

- On January 23, 2013, Alexa Lam, deputy chief executive office of the Hong Kong Securities and Futures Commission (SFC), confirmed it was in negotiations with the China Securities Regulatory Commission (CSRC) to introduce a "mutual recognition" scheme whereby mutual funds and unit trusts that had been authorised and domiciled in either China or Hong Kong respectively, could be sold in the other's jurisdiction
- On September 24, 2013, finance ministers of Australia, South Korea, Singapore and New Zealand signed a proposed "Asia Region Funds Passport" Agreement in Indonesia on the sidelines of the Annual meeting of Asia-Pacific Economic Cooperation (APEC) Finance Ministers
- On October 2, 2013 the securities market regulators of Singapore, Malaysia and Thailand at a meeting of the ASEAN Capital Markets Forum in Bangkok, under a Memorandum of Understanding (MOU) agreed terms for the cross-border offering of collective investment schemes (CIS) in their three countries

Source: Citi Securities and Fund Services

Amy Cho

Pictet Asset Management

"The SFC and CSRC want to further cultivate Hong Kong as a true investment centre by enriching the fund management resources"

The attraction, however, for governments of a way to further develop domestic financial industries and recycle the vast amount of savings in the region through local investment vehicles has now led to some specific action with the three proposed schemes.

The potential for passporting has also quickly become a big draw-card for a lot of the asset management firms which have either flocked to Asia in recent months, or are looking to further raise their profile in the region.

In particular, says Amy Cho, managing director and regional head of business development for Pictet Asset Management in Asia Pacific (ex Japan), the Hong Kong-China mutual fund recognition scheme has attracted a lot of firms to Asia.

They are coming to the region with an expectation of growth through this and similar initiatives.

This seems to play into the plans of both securities regulators.

"The SFC and CSRC want to further cultivate Hong Kong as a true investment centre by enriching the fund management resources," she explains.

READYING FOR A FUNDS TAKE-OFF?

The proposals offer investment managers the option of selling the same product in more than one market in the region, allowing for economies of scale, says Aldcroft.

"But a minimum requirement will be local domicile and perhaps local management, which will have its costs. These conditions would also exclude UCITS vehicles from the new regime."

Yet the passporting schemes will not see the end of UCITS in the region, predicts Aldcroft.

"Investment managers will still use UCITS, particularly as part of a global strategy. Local funds will also be used for ease of access to some markets. The proposed passporting regimes offer a third option."

Cho at Pictet Asset Management sees the best way to position the firm against the inevitable competition from other industry players, and at the same time cater to the needs of Asian investors, by adding new share classes in addition to launching new products.

Tony Edwards

Robeco

"Mutual recognition only makes sense from a cost perspective if the assets gathered are significant"

This is something she says the firm is currently working on.

"For example, in Hong Kong, investors are interested in Australian dollars; while in Taiwan, investors are interested in South African rand and Australian dollars," explains Cho.

"We are also considering the launch of RQFII products."

A NEED FOR PATIENCE

The inevitable questions, however, include whether any of the new schemes will work, and how to take advantage of them.

Some industry practitioners are a bit cautious. While being welcomed for the potential growth in funds volume they promise, the existence of multiple passporting regimes would affect the asset management landscape significantly, says Eastspring Investments chief executive officer Guy Strapp.

"The cost of entry to set up what might be required under a passporting regime in terms of resourcing has the potential to create a different competitive landscape.

I would prefer to see a single passporting regime," he says.

A single regime would certainly be a much less costly option, says Tony Edwards, chief executive officer for Robeco in Asia Pacific.

And mutual recognition only makes sense from a cost perspective if the assets gathered are significant, he adds.

Timeframe is also a question that some senior practitioners are raising. "I think we are quite a few years away before any passports are operational, other than the Hong Kong-China mutual recognition scheme," says Vincent Camerlynck, chief executive officer of BNP Paribas Investment Partners in Asia.

But even given the opportunities from being able to access the mainland China market more directly, the key thing is to generate demand.

"QDII, as a comparison, was not as successful as people expected," says Camerlynck.

Another challenge that Edwards identifies stems from the fact that there is not an enormous talent pool of operations staff in Hong Kong.

"This is an important factor, given the required number of trusts which will be required in Hong Kong," he explains.

Camerlynck thinks there is therefore a strong impetus for governments to create incentives, as well as for the industry to educate the wider market, to create a demand profile that is more akin to structural investing and diversification with a long-term focus – rather than creating a situation of short-term speculative trades.

Strapp sees the multi-scheme approach as an extension more generally of the regulatory challenges confronting Asian asset managers. "There are so many approaches being taken by regulators to deal with issues that are specific to their local markets."

As a result, he believes scale is a significant advantage going forward. "As regulations become more complex, for example, this requires a lot more investment into governance. That plays into the hands of the larger firms," explains Strapp.

Multiple passporting would also support the scale firms given the cost barriers to setting up multiple platforms with the required resources.

"There is a strong impetus for governments to create incentives, and the industry to educate the market, to create a demand profile akin to structural investing and diversification with a long-term focus."

Vincent Camerlynck

BNP Paribas Investment Partners

"There can be no doubt about the size of the China market and the tremendous amount of opportunity that can be unlocked"

"This will make a broader distribution platform an important advantage," adds Alan Harden, chief executive officer for BNY Mellon Investment Management in Asia Pacific.

ALL EYES ON CHINA

Unsurprisingly, China is where the majority of attention from asset management firms is focused, given the appeal of getting access to the vast amount of onshore wealth in the country.

This is also based on expectations among industry players that the SFC and CSRC are the most likely regulators to take the first steps in getting the ball rolling in 2014.

"Firms which are not well positioned in China might not be in a position to serve the needs of Asian investors any longe."

Aldcroft expects to see a "pilot scheme", a term China uses when starting off something new in the financial services industry. "This will most likely mean that a few fund houses with qualifying products will be allowed to start to sell cross-border. Thus a number of Hong Kong based fund managers can start to have their funds sold in China, and some China managers have funds sold in Hong Kong."

Yet key issues will need to be addressed, says Aldcroft, especially in the mainland.

For example, global fund managers have no local branding in China among local investors. Also, since distribution will be a key ingredient to success, this is currently dominated by the big four or five banks, so getting on to their platforms will prove vital.

Further, for China managers, they have only created funds that invest into the Chinese stock and fixed income markets, and the last five years has seen consistently negative returns on average, from Chinese equities, and the fixed income market looks like being well past its peak.

This hasn't dampened optimism overall among market players.

"The liberalisation of China will continue its momentum," says Camerlynck at BNP Paribas Investment Partners.

"While some of the specific outcomes may still be unclear, there can be no doubt about the size of the market and the tremendous amount of opportunity that can be unlocked."

As a result, firms which are not well positioned in China might not find themselves in a position to serve the needs of Asian investors any longer. ■

Guy Strapp

Eastspring Investments

"As regulations become more complex, this requires a lot more investment into governance. That plays into the hands of the larger firms"

HOW CREDIT SUISSE IS MAKING ASIA A PRIORITY

WITH ASIA NOW A CORE MARKET OVER THE MEDIUM TO LONG TERM FOR CREDIT SUISSE, MICHEL DEGEN, MANAGING DIRECTOR AND GLOBAL CO-HEAD OF FIXED INCOME, BASED IN ZURICH AND SINGAPORE, OUTLINES HOW IT IS INVESTING IN TALENT, MANUFACTURING AND ITS THIRD-PARTY DISTRIBUTION NETWORK.

With the expectation that Asia will drive global asset management in the coming years, Credit Suisse is making the region core to its growth strategy.

This is a multi-pronged approach: (i) focusing on distribution of products in South-east Asia, mainly to private banks and institutional clients; (ii) adding Singapore manufacturing capability in multi-asset class solutions, real estate, Asia fixed income and Asian equities; (iii) distributing Asian products to European investors; and (iv) providing global products to Asian clients.

"The continued liberalisation in financial markets like China, India and across South-east Asia will lead to sustainable growth over time," says Credit Suisse's Michel Degen, managing director and global co-head of fixed income, based in Zurich and Singapore. As a result, asset managers have to focus on their strengths to ensure success, he says, which lends itself either to large brands or boutiques.

Further, besides performance, strong distribution networks and brands are key, adds Degen, with asset managers required to invest heavily in the coming years as independent advisory models grow quickly, especially in the light of new regulations in Europe such as AIFMD, RDR and MiFID. Another must, to gain a comparative advantage, includes investing in infrastructure and banking 2.0 client-end tools.

KEY INITIATIVES

To put this into practice, the firm has several clear goals. From a distribution perspective, the focus is a systematic coverage of third-party distribution in Singapore and Hong Kong, including wholesale, IFA and institutional clients.

In terms of Asian equities mutual funds, the plan is to launch a US-dollar institutional share class of the Credit Suisse SICAV Lux Equity Asia Consumer Fund in the first quarter of 2014. The firm is also exploring quarterly distribution for its Credit Suisse SICAV Lux Asian Equity Dividend.

In relation to China, Degen says the aim is to take advantage of potential regulatory relaxation and industry trends to continue to explore opportunities for collaboration with joint venture partner ICBC in areas such as QDII, QFII and RQFII. This includes promoting Credit Suisse products through ICBC's international private banking network.

Michel Degen
Credit Suisse

Another initiative is enabling clients such as European and Asian private and institutional investors to invest in the onshore Chinese bond market. In general, Degen says the firm will "continue to focus on performance, build ing track record and investing in investment know-how, distribution and the platform". ■

PRODUCT OFFERINGS: SEPARATING THE WINNERS AND LOSERS

AS PART OF THE CONSTANTLY-EVOLVING RELATIONSHIP BETWEEN PRODUCT MANUFACTURERS AND DISTRIBUTORS, PAUL HODES, MANAGING DIRECTOR AND HEAD OF WEALTH MANAGEMENT, CONSUMER BANK, ASIA PACIFIC AT CITIBANK, EXPLAINS TO HUBBIS WHAT'S IMPORTANT TO HIM WHEN SELECTING DIFFERENT PROVIDERS.

The ever-larger number of investment products and solutions available in the wealth management space in Asia is making the need for holistic advice increasingly acute. Further, the ability to look objectively across all these products and solutions to determine which ones are really best-in-class is getting more and more vital.

This is according to Paul Hodes, Citibank's head of wealth management, consumer bank, Asia Pacific. In line with this, he says he wants to see the relationship between a wealth management firm and product provider evolve to the point where there is an ability to customise product offerings.

"As we try to build out portfolios for clients, we want to look beyond the objective of the underlying fund and geographies or sectors to assess whether a client has high levels of concentration relating to the mutual funds they own," explains Hodes. "So going forward, customising the solution with product providers would lead to truly diversified portfolios." That might mean the wealth manager buying multiple products off a platform, for example.

The focus for Hodes, therefore, is not on reducing the overwhelming number of products in the market, but rather how to differentiate the better ones to create the right offering.

DIFFERENTIATING THE OFFERINGS

Given the significant competition already among asset managers in Asia, new entrants must realise and adapt to the different dynamics of doing business in various countries. Plus, they need to understand the different economic and regulatory cycles of development. Only then can they accurately determine their strategy and product to ensure they can provide something different, or with a genuine speciality.

At Citibank, Hodes says he looks both at geography and individual client segment to determine investment needs. He then assesses the extent to which the offering from a certain product manufacturer is different from that of an existing provider.

His primary consideration is the strength of the manager – more specifically, whether the product is best-in-class for the specific client type and segment. Further, Hodes says it is important to understand the demand that the provider expects in Asia based on local appetite.

Paul Hodes
Citibank

Another of his key considerations – especially for the mass affluent – is whether the provider has enough people on the ground to support distribution. This includes language capability and appreciation of local needs. ■

DEUTSCHE EYES ASIAN TILT TO PRODUCT OFFERING

DEUTSCHE ASSET & WEALTH MANAGEMENT IS GEARING UP TO TAP THE GROWING DEMAND FOR LOCAL PRODUCT AND EXPERTISE AMONG ASIAN RETAIL, WHOLESALE, INSTITUTIONAL AND HIGH NET WORTH CLIENTS, SAYS RAVI RAJU, HEAD OF THE BUSINESS IN ASIA PACIFIC.

As the world tilts towards product offerings which are more long-term, asset management-oriented – and away from balance sheet, investment banking-led models – Ravi Raju has big plans for his business.

Not only does this regulatory-driven trend play into the hands of an organisation like Deutsche Asset & Wealth Management, as one of the global leaders in bringing consistent and comprehensive investment capabilities to market.

But Raju can also feel confident of succeeding as a symptom of the fact that he is based in Asia.

"There is huge demand coming from Asia for asset management solutions," he explains.

And to cater to this appetite, he says the firm intends to service domestic investors of all types in the region through its warehouse of capabilities – ranging from traditional investments to investment banking to more specific Asian assets.

The next step, says Raju, is to build investment capability in Asia over the next two to three years, across money management and local fixed income and equity product.

GOING LOCAL

Ultimately, no matter who or where in the world they are, clients care about two things: investment performance and good service.

Deutsche Asset & Wealth Management is well set-up internationally to provide both, says Raju.

For example, its traditional asset management offering in Germany is dominant in the retail space, offering investors money markets, fixed income, equities and multi-asset class portfolios. Furthermore, its alternative investment capability offers exposure to real estate, infrastructure and other asset classes – both through funds and segregated accounts.

For the time being in Asia, meanwhile, aside from a limited amount of local fixed income money management, the asset management business is more of a distribution platform, says Raju. Yet the promise of the product potential to service the ageing population across the region is wooing the firm.

Ravi Raju
Deutsche Asset & Wealth Management

At the moment, these retirement savings needs get served by pension plans for individuals, and it is a pool which grows naturally by around 15% to 20% every year.

But while the funds have to date been invested into local equity and fixed income, a lot of these markets are now

400+ investment professionals dedicated to active management	126 funds ranked 4* or 5* by Morningstar	Full range of passive investment solutions offering exposure to 250+ underlying instruments	Managed account platforms ofering transparent access to 250 external hedge fund managers

too small given the growing size of the population and the funds under management, says Raju.

Further, as India and China increasingly open up to outside investment, there is rapid growth in demand for insurance solutions.

In China, for example, Raju says the expected privatisation of the insurance market will create significant opportunities for the types of products and solutions that can handle the growing liabilities which exist.

"As the local investment markets fall short in terms of providing the variety and depth required as the needs of the investor base grows, being able to provide alternative solutions will be key," explains Raju.

Further, depending on what level of customisation clients want on an asset allocation basis, the firm can select credit, equities and macro strategies.

BEING SERIOUS ABOUT SUCCESS IN ASIA

From a private banking perspective, Raju says the winning models going forward are much more likely to be those which are able to tap the 60% of the overall wealth which is being created by the business owners.

"This is the segment we target," he says, explaining that these entrepreneurs are looking for a global offering that can provide a full set of products and services, as well as cross-border connectivity. In time, this group of service providers might also include Asian banks that become more global.

> "From a private banking perspective, the winning models going forward are more likely to be those which are able to tap the 60% of the overall wealth being created by the business owners."

Today's low-yield environment plays to the firm's strengths. "Insurance companies and other investors will look for alternatives," he says.

"This is where we can step in with the support of our investment bank – including providing solutions for private companies and taken them public."

Yet many boutiques, which target specific sectors, are unlikely to be able to create a sustainable model in Asia, says Raju. It is the business owners which add the majority of wealth – and they seek universal banks, he says.

Embracing global scale

- Deutsche Asset & Wealth Management has offices in more than 140 cities in 35 countries
- Over 60 nationalities are represented among the team of about 6,000 employees – and they speak over 70 languages
- 27% of employees are located in the US; 34% in Germany; 26% in EMEA; and 13% in the Asia-Pacific region

On the other hand, when it comes to asset management, in addition to the global players, Raju says there is a lot of scope for boutique providers which do a specific asset class very well.

"There is still a place for boutique managers which have niche skills and knowledge that make then experts in their chosen asset class or individual market," he explains.

"But our customers come to us expecting a different experience."

Regardless of the offering, however, clients are getting more aware of what types of service and offering they should have access to. So it is all about delivering on these expectations. ■

MEETING THE CHANGING NEEDS OF PRODUCT GATEKEEPERS

WINNING THE HEARTS AND MINDS OF PRODUCT GATEKEEPERS AT WEALTH MANAGEMENT FIRMS DEPENDS ON PROVIDERS FULLY UNDERSTANDING THE DIFFERENT NEEDS AND PRESSURES OF THESE DISTRIBUTORS. ASSET MANAGERS MUST RESPOND BY BEING SELECTIVE AND SUPPORTIVE, AND AWARE OF HOW TO ADAPT AND TAILOR THEIR SERVICE LEVELS, FUNDS AND MARKETING TO THE INDIVIDUAL NEEDS OF PRODUCT PLATFORMS, WEALTH MANAGERS AND, ULTIMATELY, END-CLIENT.

The dynamics of the relationship between product providers, distributors and even the end-client continue to evolve in line with the various cost, compliance and competitive pressures impacting all aspects of the wealth and asset management industries.

One of the main outcomes is the continuing trend of distributors seeking a lower number of relationships with product partners, but to make these more strategic in nature.

This is for various reasons.

Given that the regulators are increasingly demanding, it is appealing to work with fewer providers in a partnership approach.

It is also a function of the fact that there are new teams in some of the banks and they want to see how they can make their overall product offering more efficient and focused.

"Even just doing an adequate amount of due diligence on a fund requires a lot of resources, so it is a big challenge for banks to have too many funds on their platform," says Nick Hoar, Neuberger Berman's head of Asia Pacific.

Nick Hoar

Neuberger Berman

"Even just doing an adequate amount of due diligence on a fund requires a lot of resources, so it is a challenge for banks to have too many funds on their platform"

At the same time, it benefits providers. "Working with a large number of distributors is also inefficient [for us], especially from a cost perspective," says Vincent Camerlynck, chief executive officer of BNP Paribas Investment Partners in Asia Pacific.

More broadly, there has been a clear move away from open architecture to guided architecture.

"This has the effect of reducing the number of funds that the banks have to manage on their platforms from hundreds to dozens, and in turn takes away some of the due diligence pressures," explains Justin Ong, Singapore asset management leader at PwC.

WHERE ASSET MANAGERS STAND

The size of the opportunity in Asia doesn't always translate into mandates as easily as some asset management companies would like. "Some fund managers without an established brand in Asia don't get a look-in with some

APPROACHES TO PRODUCT AND SERVICES DEVELOPMENT - NOW AND WHAT'S EXPECTED IN 2 YEARS' TIME

Source: PwC Global Private Banking and Wealth Management Survey 2013

private banks unless the bank knows that brand," says Andrew Hendry, managing director for M&G Investments in Asia. "This is the case especially some of the boutiques."

Just as fund managers wouldn't have lost their jobs in the 1980s for buying IBM stock, similarly portfolio managers within a private bank can't go wrong when buying from the largest brands.

This still rings true to some extent. For the key asset classes, the dominant players in the fund management space which deal with private banks still tend to be core providers as they offer best-in-breed products.

They have retail platforms but also have various funds that are sold to HNW investors. These firms also provide brand assurance to distributors.

However, the larger private banks with relatively deep resources for fund manager research are more comfortable looking at newer product providers, adds Hendry.

In addition, says Mark Konyn, chief executive officer of Cathay Conning Asset Management, where there is appetite for bespoke product, distributors are more open to working with asset managers which can offer a more tailored and high-touch service rather than simply giving them yet more mutual fund offerings.

This capability also depends on the operational and IT support, to determine whether they can deal with a variety of offerings from multiple jurisdictions, and in a range of currencies.

In addition, the discussions around mutual funds platforms in relation to the Hong Kong-China mutual recognition initiative are around creating new products to position for organisations to take advantage of this development, says Ong.

DECISION-MAKING DYNAMICS

Yet it is easier for gatekeepers to ask for more products from fewer providers than something which they can do in reality.

"Even though [distributors] want to create as much efficiency as possible, sometimes clients' buying preferences change and they might want something different from the more limited range of products on the platform," says Guy Strapp, chief executive officer of Eastspring Investments.

Also, decisions in some cases tend to get made multi-jurisdictionally.

"For example," explains Strapp, "research might be done in one jurisdic-

Justin Ong

PwC

"What will be critical is to make RMs more productive and efficient. An RM selling mutual funds is not a way to achieve that"

tion, whereas decision-makers will often be located across various markets."

Indeed, a more realistic way for some of the newer providers to the Asian market to make in-roads is to develop and leverage their relationships with the big global players.

Says Peter Swarbreck, head of Asia Pacific Jupiter Asset Management: "Getting on to one of these platforms – whether in Switzerland, London, Hong Kong or Singapore – means we can then coordinate internally and really get to know what the client is doing around the world, and how we can service them in individual markets."

However, in some cases, fund selection is also being made locally, especially given the importance some distributors are placing on local markets.

"Over the long term, Singapore is expected to increase in prominence as a wealth and private banking hub and gateway in Asia, with much of the fund selection and decision making now executed locally with the interests of clients in Asia," says Mark Browning, managing director for Asia at Franklin Templeton Investments.

In Singapore and across Asia, he says the private banking component of his firm's retail business has grown over the years as investors look for steady returns and sound investment theses amid a volatile market environment.

In line with this, it now manages global relationships with private banks from regional hubs such as Singapore and Hong Kong, says Browning.

"This has worked out well for us in terms of deep knowledge of the sector and client servicing levels."

FLEXIBLE TO MEET MARKET DEMAND

Fund managers striving to differentiate their offerings to product gatekeepers and fund selectors are taking different approaches.

One way is to cater to the growing appetite for global exposure and diversification from investors in local markets.

In Malaysia, for example, Franklin Templeton recently launched a US dollar share class for two of its global flagship funds to provide hedging and diversification opportunities to Malaysian investors, including HNW individuals, as well as certain qualified institutions, corporations and family offices.

In Malaysia, the Templeton Global Total Return Fund (ringgit class) has grown to over RM110 million within almost a year, while assets for the Franklin US Opportunities Fund (ringgit class) has grown to over RM60 million since its launch in May 2013.

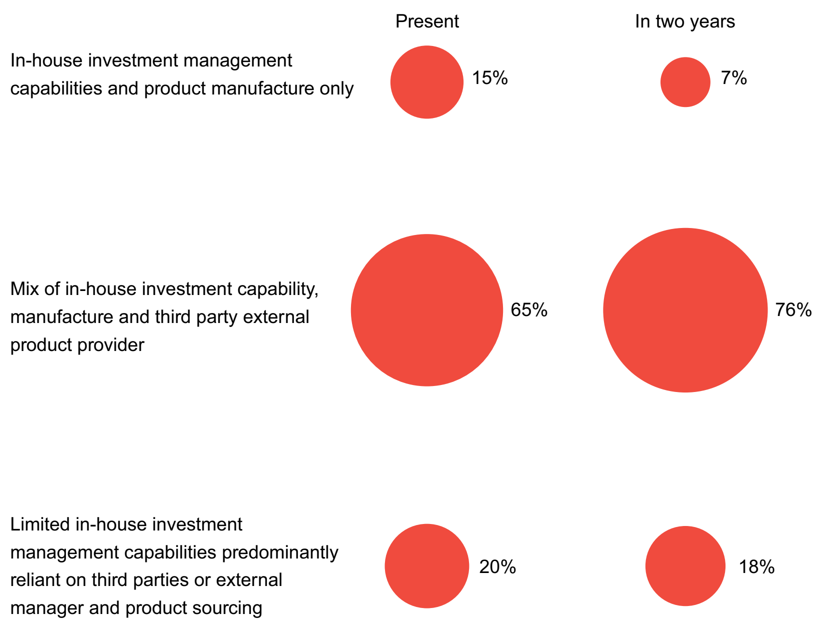
"This demonstrates that local investors have an increasing appetite for overseas investments and are keen to

Steven Seow

Mercer

"It's time that product providers put on the lenses of a client and work more closely with wealth advisers in designing products that address clients' evolving needs"

EXPECTED CHANGES TO APPROACHES TO WEALTH MANAGEMENT INFRASTRUCTURE



Source: PwC Global Private Banking and Wealth Management Survey 2013

include global funds as part of their asset allocation strategy," says Browning.

At the same time, where there remains home bias among wealth owners across Asia, it is essential to customise local solutions to meet these more Asia-centric needs. This is especially the case for RMB investments. "When assessing what differentiates fund managers on a particular platform, an emerging markets footprint is definitely a highlight for many gatekeepers," adds Camerlynck.

Generally, being flexible and innovative in terms of the product offering is vital. This might be, for example, providing duration hedged and currency hedged share classes, to meet clients' needs and capture investment opportunities.

With multiple banking relationships, HNW clients expect more than ever before to be able to see bespoke product and investment capabilities, explains Zeno Staub, Bank Vontobel's chief executive officer.

"We also believe there should be a clear separation of the risks and opportunities in every product – as opposed to an 'all-rounder' where the client does not know what they hold," says Michel Degen, managing director and global co-head of fixed income of Credit Suisse.

Take the firm's hard currency Asian credits fund as an example. It strips out sovereigns and long-dated bonds to focus on corporate bonds. Government bonds make sense in the local currency markets.

In addition, the fund-selection criteria that some of the wholesale distributors are now using is not much different from institutional clients, says TF Cheng, head of sales for BNP Paribas Investment Partners in Asia Pacific. "We are therefore working to upgrade our products and processes in line with this," he says. "For example, we are looking to develop the capacity to create local-oriented products to fill gaps in our global range."

Changes in the relationship between wealth managers and product providers are also based on an evolution in the fee dynamics. For example, says Vincent Duhamel, head of Asia Pacific and Japan for Lombard Odier, while wealth managers are still able to receive retrocessions on whatever they sell, this won't last for much longer.

"The Swiss and other European jurisdictions are forcing asset managers to create high-performing products that are in the first or second quartiles, otherwise wealth management firms will just create their own strategies," explains Duhamel.

In line with this, and given that private banks – and their clients – are faced with more options than before, it is no longer sufficient when viewing the product proposition to look at individual product classes on their own. Instead, says Steven Seow, head of wealth management for Mercer in Asia, there also needs to be a process to compare them across the board.

In the case, for example, where a client is evaluating the attractiveness of a private equity fund which invests in real estate, they should compare that option not just with another private equity funds, but also against direct real estate investments.

"It's time that product providers also put on the lenses of a client," says Seow, "and work more closely with wealth advisers in designing products that address clients' evolving needs."

THE ROLE OF ADVICE

Decision-making for distributors isn't just about the number, type or diversity of products on the platform. The challenge, for private banks in particular, also relates more fundamentally to what the role of the RM actually is.

"This has been difficult to define for many firms given the size of the product platform," says Mark Jansen, partner, financial services, at PwC in Singapore. "Is the role of the RM to advise clients on specific products? Or is to help clients navigate through the problems and bring the right product people to advise the client?"

So far, it has been about supporting the client on a transactional basis, and guiding them into what they think is "hot" or not "hot".

"What will be critical is to make RMs more productive and efficient," adds Ong. "An RM selling mutual funds is not a way to achieve that."

Jansen is seeing a general up-tick in the use of digital channels to bring to the discussion. "That gives RMs a greater ability to have a more detailed discussion with clients and bring in different product specialists," he explains. "For example, the RM can access specialists instantly on a virtual basis, which enhances the client experience."

This makes the RM a steward for the client, to guide clients through the product offering, and to more effectively bring the power of the organisation to the individual.

This also helps to overcome the one-size-fits-all approach in trying to please every client through delivering the same advisory process.

A component of successful models must also therefore be the ability to profile clients properly and match them to the most appropriate wealth adviser, says Seow at Mercer. "Naturally, different wealth advisers come with different technical backgrounds, experiences and personalities. Perhaps private banks should start looking at behavioural finance more seriously."

Mark Jansen

PwC

"Is the role of the RM to advise clients on specific products? Or is to help clients navigate through the problems and bring the right product people to advise the client?"

DELIVERING A BROADER SERVICE

Distributors increasingly also need support from their product providers in a range of areas to deal with the growing demands on their businesses.

For example, wealth management firms require a vast amount of regulatory-related information and materials from asset managers.

Grant Leon, head of private wealth sales at Capital Group, says the firm has moved from producing 30 or 40 factsheets, to hundreds of them. And that will likely rise to thousands going forward. "So the cost of doing business will continue to increase," he says.

In response to these types of requests, and as distributors want to do more with fewer providers, Henry Hamrock, head of Singapore operations for Western Asset Management, says he is increasingly looking to standardise the service where possible.

There is also a greater focus from many private banks on how they rate different products from a risk perspective. "They want to ensure consistency in the risk-ratings they assign to individual products, in line with the various regulatory requirements," says Danny Howell, head of wealth management for Towers Watson in Asia.

There is clearly a lot of potential to win business from the newer group of distributors emerging in local markets, particularly as the possibility of cross-border fund sales develops.

These distributors, in markets like China, for example, have a lot of training needs, says Lennie Lim, managing director and regional head for Legg Mason in Asia.

Training is also important in established centres like Hong Kong and Singapore, where product innovation is essential for distributors for them to adapt according to their clients' needs. "Distributors cannot rely on the traditional products they have on the shelf," says Lim. "So the product knowledge they need will adapt over time."

BEING FLEXIBLE AND THOROUGH TO SATISFY CLIENT APPETITE

GARY TIERNAN, GLOBAL HEAD OF INVESTMENT ADVISORY AND CLIENT SEGMENT MANAGEMENT AT STANDARD CHARTERED PRIVATE BANK, TELLS HUBBIS WHAT MATTERS WHEN ASSESSING WHICH PRODUCT PROVIDERS CAN DELIVER ON THE NEED TO MEET THE PORTFOLIO REQUIREMENTS AND EXPECTATIONS OF CLIENTS.

As relationships between distributors and product providers evolve in Asian private banking, the most important component is being able to give end-clients what they actually need, by ensuring the investment product or service achieves that.

"In some cases, that doesn't happen as well as it should," says Gary Tiernan, global head of investment advisory and client segment management at Standard Chartered Private Bank. "But that is where success lies."

The hurdle is less a result of the volume of product manufacturers, and more related to whether they can deliver to specific types of clients – which also raises a question about the scalability of the business models of some providers, says Tiernan.

DECISION-MAKING

The important point for the banks is sourcing the right product. Selection decisions at Standard Chartered will include consideration of the investment outlook for the targeted markets combined with actual or expected client appetite. "That then leads us to look at different providers," says Tiernan.

There are a wide range of dimensions that form the due diligence, including the credibility of the provider and the strength of its processes.

While performance will play some part of the decision-making process, he says it might be quite a small role, especially for a product type which is relatively new. Performance needs to be put in context for clients, so that it isn't just about comparing numbers. For instance, says Tiernan, actual performance should be compared with what was expected at the outset, and whether that led to either under-performance or the delivery of any alpha?

Another key consideration is the extent to which the product will truly meet the investor's needs by behaving in line with the expectations of the underlying asset class.

Delivering what clients want is also dependent on an ability to be responsive to the markets. Investment cycles are becoming shorter, for instance, so a 10-year asset allocation might be redundant. "Flexibility needs to come into portfolio construction and asset allocation, not just revisiting it once a year," says Tiernan. Product providers must be able to cope with these changing time frames. Within Standard Chartered's monthly global investment committee, he says the focus is constantly on what is happening in the markets, as well as the broader economic and geo-political landscapes, and assessing these with a 12-month view. This then is used to drive conversations with clients, explains Tiernan. ■

Gary Tiernan
Standard Chartered Private Bank

FUND SELECTORS SEEK MORE CLEARLY ARTICULATED STRATEGIES

BEING DIFFERENT AND CONSISTENT IS GOOD IN A REGION WHERE THE PRODUCTS SOLD BY MANY PRIVATE BANKS LOOK AND FEEL VERY SIMILAR, AND ARE OFTEN DRIVEN BY THE "FLAVOUR OF THE MONTH". SPECIFIC STRATEGIES WHICH DO WHAT THEY SAY THEY WILL ARE INCREASINGLY DESIRABLE FOR GATEKEEPERS, SAYS DANNY HOWELL, HEAD OF WEALTH MANAGEMENT FOR TOWERS WATSON IN ASIA.

The excessive cost-income ratios across most private banks in Asia in recent years have made differentiation essential. Typically, this means making the product offering stand out.

Yet the popular products in the Asian wealth space tend to be common across many distributors. As a result, there is now an ever-sharper focus on strategic asset allocation, portfolio construction, manager research and due diligence, and monitoring and reporting.

That creates opportunities for consultants to help organisations source different types of product, such as private equity or access to private deals, says Danny Howell, head of wealth management for Towers Watson in Asia. "Our large, existing institutional client base gives us broad reach globally. So we can also package opportunities for clients in the wealth space."

POCKETS OF POTENTIAL

Despite Towers Watson's traditional strengths in servicing institutional clients, it can't ignore the rising levels of affluence across Asia and therefore the potential to grow its retail and high net worth business.

For example, insurance companies have been particularly aggressive about leveraging their existing customer and distribution bases. "In 2013," says Howell, "they have been reviewing their portfolio products and finding the best managers for their platforms, and then trying to package products into model portfolios for clients." These might lead to something as straightforward as three to five portfolios, ranging from capital preservation and income protection to medium and higher growth strategies, for instance.

Another opportunity is in advising family offices. "We can provide an independent perspective on what they get offered by their private banks," he explains. "Plus, we are able to give them a full picture of their asset base."

Danny Howell
Towers Watson

MORE SELECTIVE

In trying to be different while also making their overall product platform more efficient, fund selectors at wealth management firms are now looking for a more clearly articulated strategy in relation to the funds and managers they recommend. "They want to understand the specific style of the manager and ensure this is consistent across the family of funds on offer," says Howell. "Fund selectors have somewhat increased tolerance for periods of underperformance of a fund, but are less tolerant now of any deviations from stated strategies of a fund," he adds. It is therefore more important than before for managers to ensure clear communication with gatekeepers. ■

CAN FINANCIAL MARKETS STAND ON THEIR OWN FEET AGAIN?

MARK BURGESS, CHIEF INVESTMENT OFFICER AT THREADNEEDLE INVESTMENTS, SAYS THAT THE FINANCIAL MARKETS WILL NEED TO STAND ON THEIR OWN FEET AGAIN IN 2014, AS THE GLOBAL POLICY SUPPORT WHICH HAS BEEN PROVIDING ABUNDANT LIQUIDITY TO MARKETS STARTS TO BE WITHDRAWN.

In 2014, the withdrawal of the liquidity injections which have been commonplace in recent memory will mark several important changes in the drivers of investment returns. First, instead of liquidity, corporate earnings will move into the spotlight and drive equity performance; secondly, the gap between equity and fixed income valuations will continue to normalise as bond yields ris; thirdly, in a low-growth world, credit will continue to shine among fixed income assets; and fourthly, emerging markets, as a "wildcard", will likely remain volatile.

ASSET ALLOCATION MODEL, DECEMBER 2013

	Strongly dislike	Dislike	Neutral	Favour	Strongly favour
Asset allocation	Government bonds	Index linked	Cash Commodities	Credit, Equities Property	
Global equity region		US	Europe ex-UK Pacific ex-Japan Emerging markets	UK Japan	
Global equity sector		Energy Utilities Telecoms	Materials Industrials Healthcare Staples, Financials		Technology Consumer cyclicals
Bond - FX hedged		Japan	Germany US, UK EM local	Nordic Australia	
Credit			Corporate inv.grade Emerging market debt	Corporate high yield	
Commodity		Base metals Softs	Grains, Livestock Precious metals		Energy
FX		JPY, AUD Euro	Nordics	GBP	USD
Portfolio risk			X		

Source: Threadneedle, December 2013.

As a result, 2014 will be about selecting the right investments as the global economic recovery will be put to the test. Financial markets will have to re-engage with reality against a backdrop of significant macro and policy challenges and investors need to be alive to the consequences of this changing environment and subsequent volatility.

What happens if quantitative easing (QE) is withdrawn too quickly? What risks lie ahead if companies don't deliver earnings growth?

EQUITIES

While Threadneedle remains bullish on equities overall, regional and sector performance will vary significantly.

Investors are increasingly shifting their focus away from market liquidity to company fundamentals following the US Federal Reserve's (Fed's) announcement in September that it is preparing to start turning off the QE tap. Companies will have to step up their game and earnings will have to pick up significantly if equities are to sustain or even come close to the rally we have seen in developed markets during 2013.

US company earnings have been at the forefront, having recovered and surpassed their previous peak. But it is unlikely that the returns in 2013 of close to 30% will be repeated in 2014, but US equities remain attractive.

The banking sector is well capitalised and has started lending again, providing a boost to the economy. While the debt ceiling remains a risk, a combination of low energy and labour costs should support company margins into 2014. The best performers should be companies in the technology and consumer discretionary sectors.

In contrast, only half of European companies have beaten earnings expectations so far this year. The region remains beset by relatively poor growth dynamics compared with the rest of the developed world. This year's stock market recovery could easily herald a false dawn. The banking sector still has a long way to travel to address its capital shortage, although the fundamentals are much improved. While for the first time in three years Europe is likely to return to positive GDP growth in 2014, earnings growth is likely to be steady rather than dramatic. Stockpickers, however, could be handsomely rewarded when concentrating on companies with strong business models, robust finances, experienced managements and dominant market positions.

Meanwhile, while the UK economy is still smaller than it was pre-crisis, there have been some very encouraging data in 2013 and there could be a surprise uptick in GDP growth of around 2% next year. Unemployment has been falling and there is a likelihood that the Bank of England's 7% threshold will be reached in late 2014.

The problem is that the positive data has not necessarily translated into domestic profits thus far and companies are likely to end the year flat.

On the upside, there has been a pick-up in IPO activity and the improved economic backdrop should further drive corporate confidence and activity in 2014. The best returns are likely to come from industrials and the consumer discretionary sector, with consumption (and housing) having driven the economic recovery to date.

However, relatively little economic rebalancing has taken place to date, something that has been exacerbated by the success of the "Help to Buy" scheme and raises questions over the sustainability of the recovery.

In Japan, which has embarked on a clear and credible path, "Abenomics" has been transformative. Low interest rates support credit growth and 80% of companies are set to raise base salaries. More challenges lie ahead but further gains are expected in equities, especially in financials and beneficiaries of policy action.

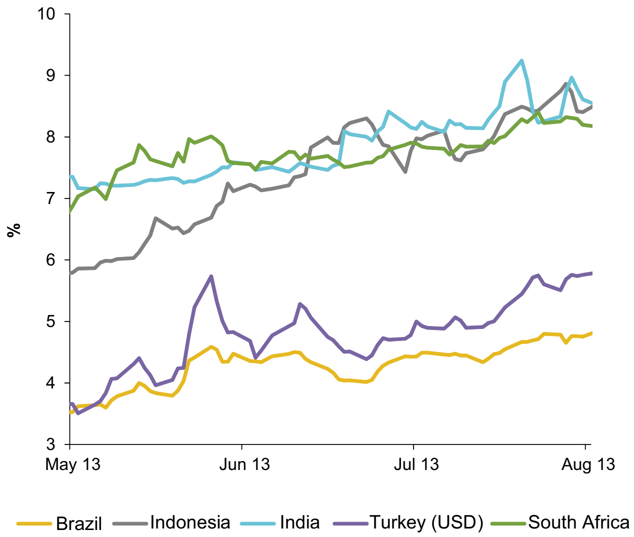
TARGET YIELDS AND SPREADS

	Global governments (%)	Global IG corporate credit spreads (bps)	USD EMD spreads (bps)	European HY spreads (bps)
Current	1.55	128	355	355
Recession	1.20	213	475	625
Slow growth	1.77	132	335	340
Recovery	2.42	93	275	310

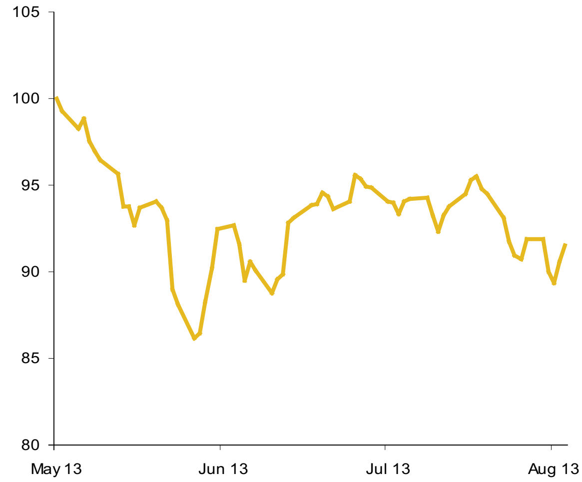
Source: Bloomberg, Threadneedle as at 30 November 2013.

EM SUMMER SELL-OFF - A TASTE OF THINGS TO COME

10-year yields for the BIITS



MSCI EM($) index, rebased to 100



Source: Bloomberg, Datastream.

FIXED INCOME

It is likely that 2014 will be a year of transition for bonds. The expectation of QE tapering has already led to the end of the bond market rally, although there is no evidence for a rotation out of the asset class as demand from pension funds and banks remains.

In sovereign markets, yields should move gradually upwards, with the 10-year US Treasury yield at around 3.5% by the end of 2014. While there might not be a return to the historic norms just yet, the gap between equity and bond yields should slowly start to normalise, so the "risk-on" stance that has worked well for investors during the last few years becomes less glaring.

In fact, corporate credit as an asset built for a slow-growth environment should perform well next year, having already delivered positive returns in 2013. High yield, in particular, has had a good year in 2013 and this should continue. Company balance sheets are robust and defaults as very unlikely.

EMERGING MARKETS

Emerging markets, however, are a mixed bag and a "wildcard" for 2014. The announcement of QE tapering has caused significant headwinds in fixed income assets and concerns over currency volatility and current account deficits remain. Equity valuations are attractive, but history shows that rising US Treasury yields and a stronger US dollar can have a negative impact on emerging market returns. In addition, GDP growth in countries such as Brazil is unlikely to look spectacular compared with the developed world.

On the upside, Mexico points to a year of solid growth linked to the US economic recovery and the country's lower manufacturing cost base compared with China. While the latter has impressed us with the third plenum, stock-picking is going to be of particular importance over the next few years. Equally, domestic markets in Latin America and those emerging market companies that are geared to an recovery in the developed world should not be dismissed. ■

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GROWING GLOBAL APPETITE FOR ASIAN ASSETS

JULIAN IDE, CHIEF EXECUTIVE OFFICER OF OLD MUTUAL GLOBAL INVESTORS, LOOKS AT THE GROWTH IN INTEREST IN ASIAN ASSETS – AND THE REGION MORE GENERALLY – AMONG INTERNATIONAL INVESTORS.

While income investing is now a structural story in Asia, there is also increasing interest around the world in Asian income-generating asset classes, says Julian Ide, chief executive officer of Old Mutual Global Investors.

As there is a move away from some of the QE policies in some of the world's economies, there might also be more of a focus in Asia towards absolute return products, he adds. And if well-explained to clients, strategies along these lines could be attractive to the investor base, instead of traditional fixed income.

APPETITE DRIVERS

With such low interest rates, Ide says that the focus has been on equity and bond-based income strategies, especially from the perspective of European investors. Income generated from Asian asset classes holds particular appeal because of the region's growth story and macroeconomic advantages.

The demographics of South-east Asia, for example, are of interest from an investment point of view, leading to Asian assets being attractive globally. Plus, the fact that some brands are now globally-recognised names, as well as being profitable businesses in their own right, helps to further their attraction to investors around the world. For example, corporate balance sheets in the region tend to be healthy and cash-flow generation is strong, leading many companies to paying out higher dividends to their shareholders.

Further, now that Old Mutual Global Investors has created UCITS versions of the hedge funds the firm runs, Ide foresees growth in Asia also from sales of these structures – that include characteristics which absolute return strategies had in recent years.

MAKING GREATER ALLOCATIONS TO ASIA

When viewing Asia in the context of global portfolios, Ide says some countries previously viewed as high-risk emerging markets are now genuinely some of the manufacturing powerhouses of the world.

While capital markets are, however, not as developed in these places as they are in the West, this poses a lot of upside for the development of the markets. And this has been happening at the time when European firms have suffered during the 2008 financial crisis. "The long-term potential and demographics of many Asian markets are extremely attractive in a way that Europe isn't," explains Ide. That makes it likely that the unmistakable shift of assets and transfer of wealth from West to East will continue, he adds. ■

Julian Ide
Old Mutual Global Investors

FEATURE ARTICLE

A MORE BALANCED APPROACH TO BUILDING PORTFOLIOS

THERE ARE SIGNIFICANT CHALLENGES IN COMING UP WITH THE RIGHT ASSET ALLOCATION AMID THE UNCERTAINTY THAT CHARACTERISES ASIAN AND GLOBAL INVESTMENT MARKETS. GATEKEEPERS ARE LOOKING TO HELP THEIR CLIENTS CREATE BALANCED PORTFOLIOS TO AVOID BEING OVER-CONCENTRATED AS THEY TRY TO CHERRY-PICK THE ASSETS THEY THINK WILL GENERATE THE HIGHEST RETURNS IN 2014.

Making asset allocation decisions at this point in time is particularly challenging given the distortions and influences of central governments.

What clients should be thinking about in a practical way for the year ahead, therefore, depends on how their portfolios are positioned in the first place.

If clients are already diversified, then having conversations with them about which asset class to underweight or overweight are relevant.

However, many clients are still highly concentrated, whether by geography or sector.

In these cases, the discussion should be about the client's needs and helping them understand what a diversified portfolio should look like for them.

"Clients need to understand how to distinguish their core asset allocation from their tactical investing," says Paul Hodes, managing director and head of wealth management, consumer bank, Asia Pacific at Citibank.

Ultimately, the outcome should be a balanced approach to protect wealth in today's environment.

Alex Friedman

UBS Wealth Management

"Our highest tactical conviction is to be overweight asset classes with higher potential for returns, including equities and US high yield credit"

INVESTMENT OUTLOOK

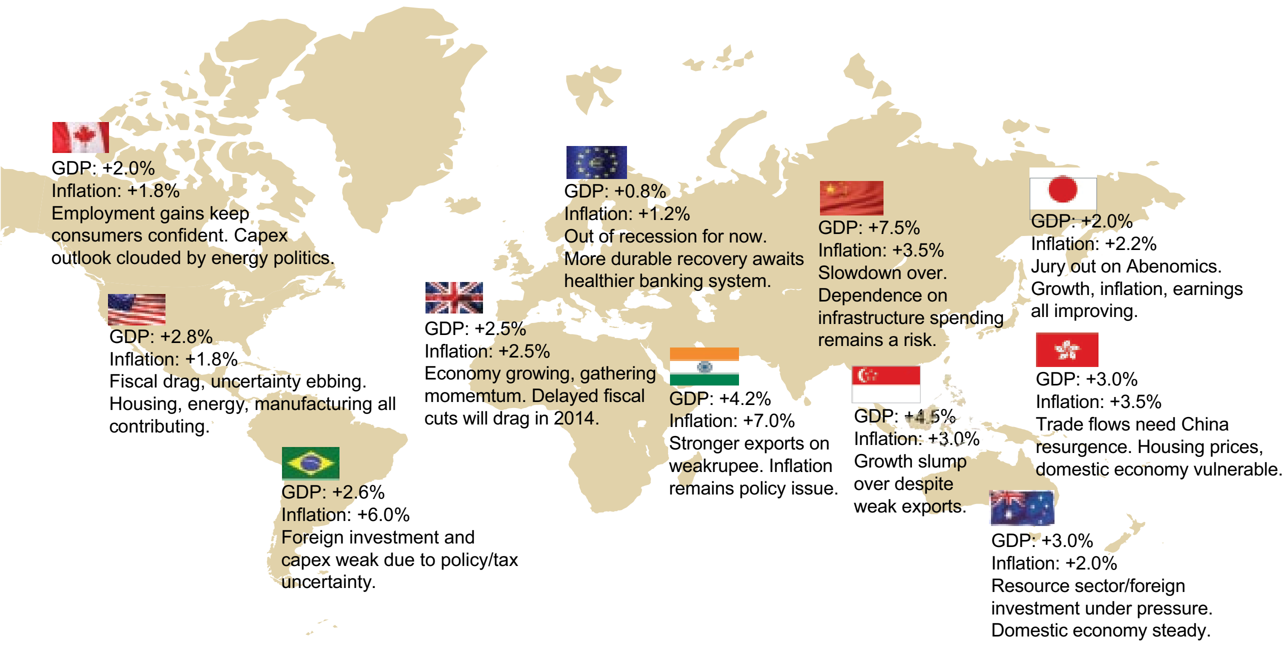
Given that the overall environment in 2014 for return-seeking investors should be positive, Alex Friedman, global chief investment officer at UBS Wealth Management, says the firm's highest tactical conviction is to be overweight asset classes with higher potential for returns, including equities and US high yield credit.

"The global economy continues to gain strength and historically low interest rates are being prolonged by muted inflation. This results in a sweet-spot for equities and quality bonds," adds Didier Duret, chief investment officer at ABN AMRO Private Banking.

According to Duret, conditions support portfolio diversification to reduce risk, based on low market volatility and declining correlations between asset classes.

Asset allocations in the private bank's balanced model portfolio, for example, remain unaltered from the last quarter – equities at 44%, bonds 37% and cash 9%. Hedge funds, property and

REGIONAL FORECASTS FOR 2014



Source: RBC Global Asset Management, RBC Wealth Management, RBC Dominion Securities

commodities retain weightings of 5%, 3% and 2%, respectively.

Yet while investors continue to place their bets for next year by increasing equity exposure among other objectives, Gary Dugan, chief investment officer for Coutts in Asia and the Middle East, urges some caution.

"We retain a pro-risk asset stance but there are too many challenges for us to believe that returns in 2014 will be anywhere near those of 2013," he says.

Gary Dugan
Coutts

"We retain a pro-risk asset stance but there are too many challenges for us to believe returns in 2014 will be near those of 2013"

The key triggers to watch for risky asset classes such as equities, credit and emerging market currencies are the US Federal Reserve's actions as well as the interest rate development in the US and globally.

Indeed, central bank intervention and political risks, and related implications for the markets and economic growth, are likely to be the biggest risks in 2014. Yet these are difficult to plan for.

"The biggest risks are geo-political," says Vincent Duhamel, head of Asia Pacific and Japan for Lombard Odier. "Liquidity appears to be there, corporate balance sheets are strong, and economies are generally quite stable except for a few bubbles here and there."

One of the biggest geo-political concerns is how the current situation with nuclear arms in the Middle East, and more specifically Iran, pans out. "This will have a huge impact on the oil supply to Asia, and the commodities market," adds Duhamel.

IMPLEMENTING INVESTMENT VIEWS

Positioning for 2014 is all about being selective. "We feel active management of portfolios is critical to add value in this environment," says Michel Degen, managing director and global co-head of fixed income at Credit Suisse.

According to Stephanie Lair, head of investment services for BNP Paribas Wealth Management in Asia Pacific, liquidity is key.

"Clients want their investments to be very liquid and they don't want to be stuck in complex products."

More specifically, Hodes warns that clients need to continue to be aware of the risks of over-concentration on fixed income, and they should focus on opportunities to rebalance via buying more equities.

Johnny Heng, head of active advisory for Coutts in Asia, says the key to protecting wealth in today's environment is to steer clear of areas where policymakers are running against markets.

For investors subscribing to the traditional asset allocation, the "safety of fixed income is at risk", explains Heng.

As a result, it is important to review existing asset allocation and look ahead to what's coming next.

Incorporating a more global focus into portfolios is also important. "For clients with high local content in their portfolios, they need to really think about globalising," adds Hodes.

As a benchmark, well-diversified portfolios across global fixed income and equities gave clients strong gains in 2013, for example. "This will be a multi-year trend," predicts Hodes.

Adds Philippe Graffart, head of fund distribution for Nordea Asset Management in Asia Pacific: "A lot of investors expect to see a shift between fixed income and equities, but I don't think we will see a big switch. Going forward, I think balanced portfolios will become more common."

The potential for a greater take-up of mutual funds in the HNW space aligns with the greater focus on having a better balance and managing various risks. "Funds are increasingly seen by end-investors as an important part of the risk-return solution. This is especially among the second generation," says Tony Edwards, chief executive officer for Robeco in Asia Pacific. "I foresee demand for funds among HNW clients to be relatively strong in 2014 in comparison with ETFs and other passive solutions. Active managers which can get their investment teams right can deliver outperformance for clients."

Beyond the affluent space, where funds play a fairly core role in port-

Stephanie Lair
BNP Paribas Wealth Management

"Clients want their investments to be very liquid and they don't want to be stuck in complex products"

Johnny Heng
Coutts

"Key to protecting wealth in today's environment is to steer clear of areas where policymakers are running against the markets"

Didier Duret

ABN AMRO Private Banking

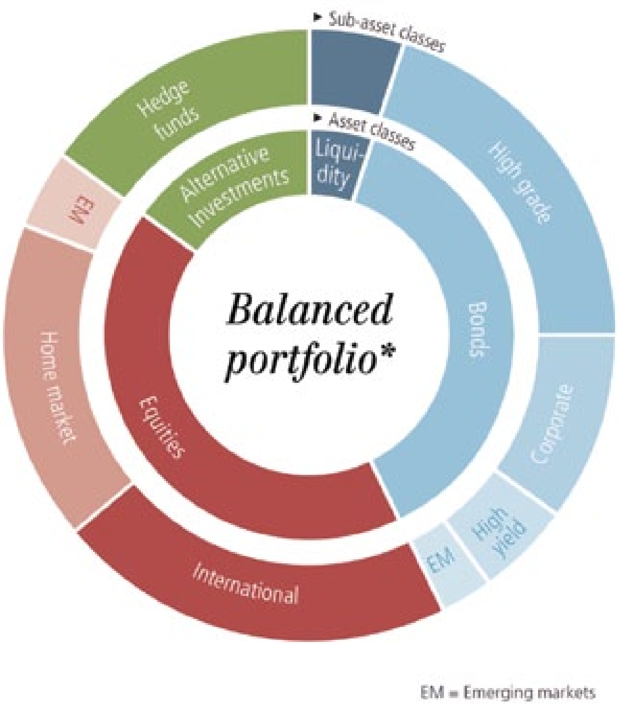
"Conditions support portfolio diversification to reduce risk, based on low market volatility and declining correlations between asset classes"

folios to meet investment needs, as portfolios get larger clients have more individual stocks and bonds, as well as gold, property and other asset classes. For entrepreneurs, they also have their businesses and related cashflow. Funds often don't represent the core.

"The key is determining how to build a portfolio around these assets and needs," says Hodes, "and mutual funds do have a place, including for private banking clients."

Where there has been growth is in terms of the role of passive products in portfolios. "A (cap weighted) index product is a commodity that can be differentiated through its implementation and pricing – for example through a swap format, which is cheaper but involves credit risk for the investor," explains Pius Zgraggen, chief executive officer of OLZ & Partners. "Some providers take the full-replication approach where the differentiation is via basis points." The focus, he says, is to be able to scale the business in order to be successful.

ASSET ALLOCATION THAT MEETS THE CHALLENGE OF CHANGE: EXAMPLE OF A BALANCED PORTFOLIO



** Illustrative example of a global diversified portfolio. Allocations may vary depending on risk profile, reference currency, home market and other factors.*

Source: UBS 11 Dec 2013

For Zgraggen, "smart indexing" is the evolution in terms of index products, enabling managers to beat the (cap weighted) index by weighting the stocks in a more efficient way than just the free float adjusted market cap. "There are a lot of index providers selling mean volatility indices. This is a shift from the capital weight to low volatility strategies," he explains.

In a rising interest rate environment, Emil Nguy, founding partner and chief investment officer of Income Partners Asset Management in Hong Kong, says there are three key ways to generate favourable returns in 2014: first, generating alpha by favouring an active / trading style; secondly, credit-picking and having the ability to trade the technical; and thirdly, being nimble but without losing sight of the big picture.

STILL HUNTING YIELD

In the prevailing environment of low interest rates, there continues to be

Emil Nguy

Income Partners Asset Management

"Key ways to generate favourable returns in 2014 including an active style, credit-picking, and being nimble"

interest among investors for yield and lowly-correlated assets. This is particularly important since the markets are still very reactive and dominated by speculative money.

As a result, products which offer regular income distribution get on to the product shelves of the various distributors. "The demographics in Asia dictate that there is a strong need to generate sustainable income. As global economies emerge in a recovery phase, this will be positive for the fixed income markets generally, especially for corporate credit upgrades," says Lennie Lim, regional head for Legg Mason in Asia.

There has been a big rotation out of investment grade into non-investment grade products – such as short-duration high-yield and floating rate loans.

"Investors are expecting interest rates in the US to increase, which could have an impact on investment grade returns," explains Nick Hoar, head of Asia Pacific at Neuberger Berman.

According to LGT Bank's Henri Leimer, chief executive officer for Asia Pacific, investors need to play convertible bonds, insurance-linked bonds and other yield investments that can keep them as immune as possible from any interest rate rises going forward.

Given that defaults are expected to be below the historical average for the next two to three years, there is greater comfort now than in recent years with non-investment grade fixed income, which is more sensitive to credit risk, adds Hoar.

Further, as investors re-examine their asset allocations, some fixed income buyers have been moving to unconstrained strategies. "We have seen demand for diversified high-income solutions from many pockets of investors including state funds, institutional funds and retail investors in Asia. However, we also continue to see increasing demand for multi-asset portfolios," says Henry Hamrock, head of Singapore for Western Asset Management.

RMB bonds in general may potentially be a winner in 2014 as the asset class is fast expanding, adds Income Partners Asset Management in Hong Kong. More importantly, investors are gaining a better understanding of this asset class' potential and what it represents.

Zgraggen at OLZ is wary, however, about the extent to which the continuous situation of low interest rates and financial repression seduce investors to search for assets with higher rates of returns. "These characteristics lead to a higher portfolio risk and a negative 'surprise' in changing markets." ■

Accessing China

For many investors structurally underweight China, the domestic market presents a huge opportunity. And inspired by the leadership in Beijing, which is encouraging greater stability and therefore growth potential, China looks attractive.

RQFII will be a significant part of the Asian bond market's 2014 growth story, with quotas expected to be further expanded to encourage foreign investors' participation in China's onshore market – but in a planned and controlled manner.

In terms of outbound activity, as part of internationalising the RMB, for example, the Chinese authorities are making a greater effort to collaborate with London and Singapore. This is enhancing the fund management appetite globally for RMB product, explains Jane Fung, head of funds distribution for Asia at Principal Global Investors.

And it is no coincidence that more and more licences are being given locally in Hong Kong to banks which are able to provide the right offering.

A PORTFOLIO APPROACH TO SPUR LONGER TERM INVESTING

ALAN HARDEN, CHIEF EXECUTIVE OFFICER FOR BNY MELLON INVESTMENT MANAGEMENT IN ASIA PACIFIC, HAS BIG PLANS FOR BUILDING WHAT HE BELIEVES WILL BE A TRULY DIFFERENTIATED BUSINESS IN THE REGION. THE AIM IS TO COMBINE THE FIRM'S OPERATIONS AND TECHNOLOGY EXPERTISE WITH ITS INVESTMENT MANAGEMENT CAPABILITY TO OFFER A THEME-BASED PORTFOLIO OFFERING.

When a US$1.5 trillion global asset manager decides to grow its business in a new part of the world, it doesn't mess around. For BNY Mellon, not only has it set its sights on developing its asset management brand in Asia; but it is doing so by bringing a different type of portfolio-led offering, to offer real solutions for longer term investment needs.

"We have been trying to make Asia more representative as part of the overall AUM globally," says Alan Harden, chief executive officer for BNY Mellon Investment Management in Asia Pacific. The region currently accounts for around US$94 billion.

READY FOR TIPs

After two years putting the various licences and other infrastructure in place, the firm is now looking to roll-out new and different offerings. One of the ways it is doing so is via its separately managed accounts business. Another, is by distributing its existing global strategies through what Harden refers to as "programmes". In the US, these are called "unit investment trusts", and the firm has the majority of the market in administering them. In Asia, BNY Mellon calls them "term investment portfolios", or TIPs.

"I see little point offering mutual funds in an already crowded space, especially in terms of the retail market. The programmes give customers a different experience of investing."

The TIPs idea, explains Harden, is to come up with thematic concepts – for example, Abenomics, inflation rising, China re-emerging, Fed tapering, longevity, or any other short- or longer-term ideas that people might want to invest in. The firm then designs a portfolio consisting of relevant stocks specifically aimed at profiting from that event happening.

Yet rather than another product that lends itself to a trading mentality, a TIP buys into a specific theme that lasts for a certain period of time, after which the investment matures and investors receive the performance. Investors can exit the investment at any time during its life, but it is closed to any new inflows.

Developing such programmes with banks is a way to overcome the challenges they face from there being so many individual funds and providers offering similar products, says Harden. "The themes and investment opportunities enable distributors to offer longer term portfolio solutions for end-clients." This is an effective way for investors to build an overall portfolio, he adds, given that they can create a mix of TIPs to profit from various market outlooks and dynamics. ■

Alan Harden

BNY Mellon Investment Management

GETTING GREATER DISCRETIONARY TRACTION IN ASIA

ASIA CLEARLY LAGS EUROPE AND THE US WHEN IT COMES TO THE PENETRATION OF DISCRETIONARY PORTFOLIO MANAGEMENT (DPM) WITHIN PRIVATE BANKING. BUT BUILDING AN EFFECTIVE OFFERING IN THIS AREA IS AN IMPORTANT FOCUS FOR MANY DISTRIBUTORS – PLUS IT CAN BRING A MORE ROBUST OFFERING TO CLIENTS IN TERMS OF THEIR PORTFOLIOS AND TYPES OF ASSETS.

To date, discretionary mandates represent only a small portion of total AUM across the private banking industry in Asia – at roughly around 5% to 7%.

But growing this side of the business is key to these organisations.

They want to find ways to tackle the unsustainable cost-income ratios that have come to define the industry in this region.

And getting greater penetration of discretionary portfolio management (DPM) can provide recurring fees as part of efforts by banks to grow their annuity business.

At the same time, it can meet the desire to increase headcount efficiencies and provide a clearer point of differentiation – or ensure they de-risk their product offering.

Among the 60 to 70 or so private banks operating in Asia, they each have their own unique style and niche when it comes to how they are looking to develop their discretionary offering.

Yet they all face similar challenges – essentially in their ability to first implement the required education, client segmentation, service model and expectation management, and then secondly, be creative enough to harness the opportunities in a scalable and profitable way.

BRINGING DPM TO ASIAN CLIENTS

According to research by Capgemini, RBC Wealth Management, and Scorpio Partnership in a global survey of high net investors in early 2013, more and more high net worth (HNW) clients are growing less comfortable with in-house products, and are more open to the concept of advice.

At the same time, clients in Asia are open to multiple experts managing their portfolios. Another finding was that clients are more willing to pay for customised services.

More generally, the generational shift taking place across the region highlights a growing acceptance by next-generation clients of advice-led models. The children and grandchildren of the entrepreneurs, who have often lived, studied and worked overseas,

Salman Haider

J.P. Morgan Private Wealth Management

"We're increasingly seeing clients who deal with us on the brokerage side switch to active advisory and that's the first step towards discretionary"

are more accepting of such an approach because they have been exposed to the concept of fiduciary duty. While the change isn't overwhelming, it is incremental and is an important demand driver.

But to establish an Asian DPM capability, in particular, the starting point is whether clients accept and embrace the concept.

While there are various viewpoints suggesting that HNW clients don't accept DPM offerings, there are various criteria which have supported the development and gradual take-up of discretionary offerings.

For example, the bearish and flat market environment has been favourable, in turn making investors more risk-averse, and aware of asset concentration and volatility.

In addition, a DPM offering in Asia cannot just mean marketing the same mandates as are available in Europe, or just creating an offering to give a client access to a mutual fund.

More specifically, some of the key features required to satisfy local investors include: local solutions and local names; less focus on risk-based models; high levels of transparency of reporting; partial solutions – by managing some of the portfolio before asking for all of it; the ability to incorporate specialist third-party advice into the overall client service package; and a "dashboard" approach to portfolio management – meaning providing the transparency over the whole portfolio to track the decisions that are made whether they are outsourced or they are insourced.

For some firms which have brought their European DPM experience to Asia, trying to allocate resources appropriately means focusing on client segmentation and then offering a limited amount of segmentation based on the size and investment objectives of their clients.

This involves streamlining the offering depending on the requirements of each group of clients.

At the same time, managing client expectations is especially important in Asia with discretionary offerings.

When clients delegate the management of the assets, they expect the portfolio managers to be able to adapt the portfolio to any changes in the wider environment. So it is important to make it clear that it isn't possible to be right every time and ensure there is a clear alignment with what the firm can provide.

To achieve this, a solution that one of the Swiss private banks has put in place is to have dedicated individuals who sit between the relationships managers (RMs) and portfolio managers to try to educate clients on the different mandates and ensure the offering meets what the clients want.

Keeping it simple is another very important part of being able to sell discretionary mandates effectively to private clients in Asia.

"A DPM offering in Asia cannot just mean marketing the same mandates as are available in Europe, or just creating an offering to give a client access to a mutual fund."

Change drivers

To shift the emphasis from a transaction-based business to an advice-based business, advice is no longer incidental.

According to BNY Mellon Managed Investments, more advice translates into higher levels of attentive service.

Banks need to change their value proposition:

- From suitability and investment sales to financial planning, succession planning and wealth management
- From client acquisition to client retention and market share
- From investable assets to net worth
- From product focus to client centricity

Clients need to change their behaviour:

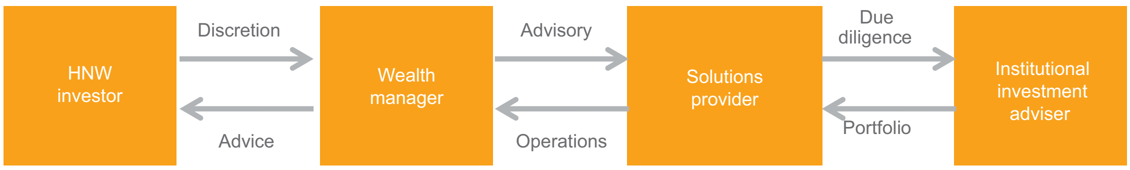
- From access for transactions and investments to Financial planning, succession planning and wealth management
- From cost to value
- From direction to advisory
- From price to returns

There is a tendency for portfolio managers to start with the investment process and discuss in detail aspects that are too complicated for some clients.

It is preferable instead to position each mandate within the context of each market environment – and with a clear

THE DPM OF THE FUTURE

Integrated, end-to-end, customised solution



HNW investor
- Selects manager strategy
- Grants discretion to wealth manager

Wealth manager
- Owns investor relationship
- Adviser to investor in recommending experts
- Asset Allocation: “family office like” advice
- May delegate discretion to third party
- Directs execution/custody

Solutions provider
- Adviser to distributor
- Provides access to third-party experts
- Implements manager strategy in client accounts at direction of private bank
- Trades block orders
- Provides related operational and distribution support services directly or through affiliates

Institutional investment adviser
- Updates/maintains investment advice
- Provides updates/changes
- Provides qualitative and quantitative data

Source: BNY Mellon Managed Investments

story that the client can understand. This will give the firm a higher chance to sell the mandate.

BARRIERS TO CHANGE

Some of the main obstacles to discretionary mandates becoming a greater portion of client portfolios in Asia stem from client as well as bank barriers.

From a client’s perspective, concerns include: transparency; control – in terms of outsourcing the decision making process; cost; choice of local and global asset managers; and some negative experiences.

Meanwhile, bank-driven barriers include: a lack of education on the importance of discretionary portfolios; current revenue and remuneration structures; time frames; the sales versus advice culture; investment bank models; and the lack of segmentation and service model.

For some practitions, DPM isn’t a specific concern. Whether discretionary or non-discretionary, they say that advice is the value proposition going forward.

A lot of this comes down to imroving the advisory service through bettering the customer experience and supporting it with the technology platform.

Meanwhile, Salman Haider, managing director and head of South-east Asia at J.P. Morgan Private Wealth Management, explains that he is seeing a gradual move towards discretionary mandates with 30% to 40% of J.P. Morgan’s regional book of business comprising annuitised assets.“We’re increasingly seeing clients who deal with us on the brokerage side switch to active advisory and that’s the first step towards discretionary,” he says.

BRINGING INNOVATIONS TO ASIA

“We are seeing the introduction of SMAs in line with a greater focus on trying to encourage more discretionary

> “While DPM is still under-penetrated in Asia relative to other regions, there is growth and therefore a lot of opportunities.”

mandates," says Danny Howell, head of wealth management for Towers Watson in Asia.

The BNY Mellon separately managed accounts (SMA) team, for example, is doing a lot of work with wealth managers who seek the latest investment infrastructure and educational training now required to meet client demand for high quality discretionary advice.

The firm is the first to build an SMA platform for Asian wealth managers that offers HNW individuals the transparency and customisation that only large institutional investors could afford until now.

"This provides full transparency and multi-currency, enabling the investor to broaden the universe of what they can buy. We can also tailor it more for individuals," says Alan Harden, chief executive officer for BNY Mellon Investment Management in Asia Pacific. "It is the first open architecture offering that provides multi-manager and multi-currency portfolios at an entry level of less than US$1 million per portfolio," explains Harden. "It significantly broadens the investment universe for the individual investor."

"Once the clients are used to the advice, for example the alerts, triggers and switches - then this can potentially be migrated, slowly, towards DPM."

While DPM is still under-penetrated in Asia relative to other regions, there is growth and therefore a lot of opportunities, adds Howell.

Given that a lot of discretionary portfolios which exist at the moment are run in-house, providing an SMA platform that offers portfolios run by many of the world's leading investment managers should create excitement.

"The smart buyers see the potential of a platform which enables them to include their own and third-party strategies and products, rather than just putting onto it the BNY Mellon strategies," says Harden.

Alan Harden

BNY Mellon Investment Management

"The smart buyers see the potential of a platform which enables them to include their own and third-party strategies and products"

Benefits of DPM

- **Align client interest** – the adviser's trusted fiduciary role aligns the adviser's interests with client's interests
- **Objectivity** – the adviser is compensated based on client assets under management
- **Recurring revenues** – through fee-based pricing
- **Client retention** – the fiduciary relationship leads to deeper client relationships, improved satisfaction and higher retention
- **Share of assets** – advisory relationships often lead to greater share of assets through more trust and a broader service offering
- **Valuation** – fee-based practices attract higher multiples and/or creating a succession plan

GETTING RM BUY-IN

Perhaps the main issue that some institutions face is that they don't spend enough time or resources educating their RMs about the benefits of DPM.

If an RM is not familiar with the concept, and therefore is not confident enough when speaking to clients to articulate the concept of value of advice and DPM, it is inevitable that they will not promote this capability.

At the same time, one of the biggest hurdles to convincing RMs to more actively promote discretionary mandates to their clients is a direct result of the way the private banking industry has grown in Asia – through the frequent movement of RMs between different types of organisations.

That has led to the market value of an RM typically being their ability to bring their clients with them. And until that challenge is solved, DPM won't be able to gain as much traction as it should – because by putting client assets in discretionary mandates, RMs are effectively institutionalising the client.

Wealth managers also need to acknowledge that as a result of the majority of high net worth individuals being entrepreneurs, most of their risk capital will be funneled back into their business – and this is a habit that can't be overturned, says Haider. "The function we have is to look after their safety money and get a return of 6% to 10%, depending on their objectives," he explains.

Danny Howell

Towers Watson

"We are seeing the introduction of SMAs in line with a greater focus on trying to encourage more discretionary mandates"

TAKING A STEP-BY-STEP APPROACH

One of the options some banks are pursuing to try to bridge the gap between transaction-focused models and DPM offerings is to offer a flat-fee advisory model that mainly uses mutual funds and ETFs.

Some of the larger accounts are able to also include instruments such as single stocks, bonds and structured products.

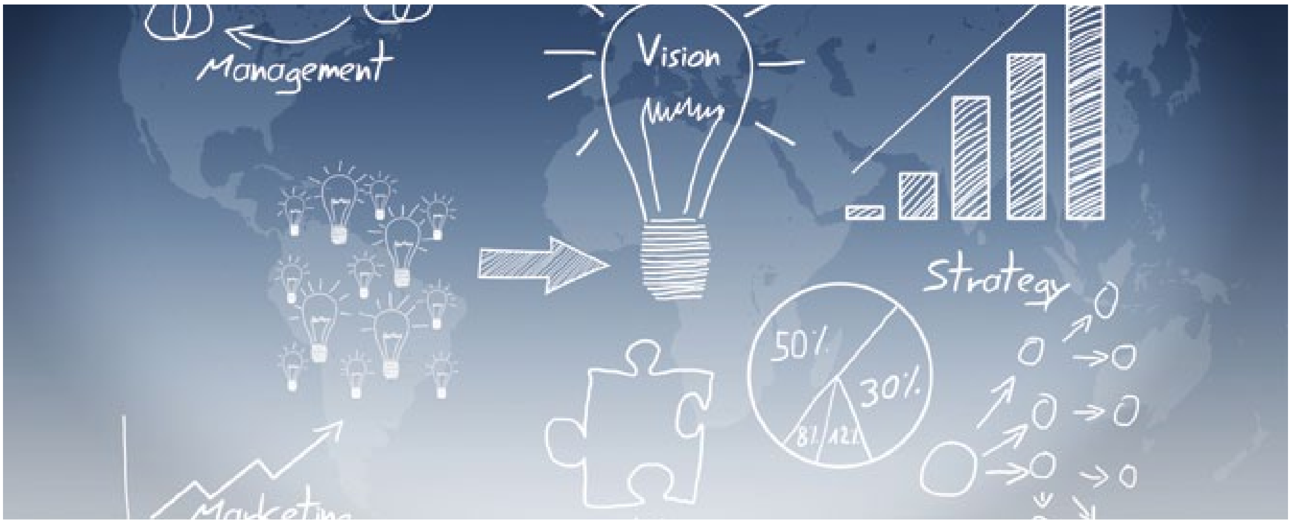
This involves "selling" the strategic asset allocation of the firm, plus the research, to put into a portfolio context.

This kind of hybrid model can help move the focus of clients towards more of a fee-paying culture, as well as to increase the take-up of mutual funds.

Once the clients are used to the advice, for example the alerts, triggers and switches – then this can potentially be migrated, slowly, towards DPM.

Ultimately, for clients, it is all about performance. And to do this, through giving good advice, means being tactical, providing access to products and ideas, and managing risk.

With this in mind, DPM shouldn't just be thought of as excessively large mandates – but rather as a way to give clients what they want in the most relevant format. ■



DRIVING A DISCRETIONARY APPROACH TO MANAGING MONEY

VINCENT DUHAMEL, HEAD OF ASIA PACIFIC AND JAPAN FOR LOMBARD ODIER DARIER HENTSCH, EXPLAINS TO HUBBIS WHY HE EXPECTS TO SEE A CONTINUED MOVE AWAY FROM TRADITIONAL BROKERAGE MODELS TOWARDS A FEE-FOR-SERVICE CULTURE BASED ON MANAGING MONEY WELL.

It is easy to see why Vincent Duhamel is upbeat about the prospects for discretionary portfolio management in Asia. In 2013, 100% of Lombard Odier's new business within its wealth management division in Asia has been in discretionary mandates, leading to relatively healthy growth in AUM.

"I see a dramatic change in the focus of the wealth management industry in this way, and I expect it to continue," says Duhamel, head of Asia Pacific and Japan for the firm. "This is happening given that the traditional brokerage approach is a declining model as it is a disservice to clients."

In line with this shift, he says that selling the discretionary offering is becoming easier. "This is being driven by more transparency on fees, the regulatory burden on suitability of investments for clients, and increasing scalability of the offering," explains Duhamel.

GETTING CLIENTS TO PAY FEES

One of the hurdles to discretionary mandates has been the fact that some clients in Asia don't recognise they are already paying fees for the products they buy from their wealth managers.

This is less applicable for Lombard Odier, says Duhamel. "We have a specific value proposition that is relevant to clients who are willing to pay fees, so we focus on articulating that clearly."

This essentially requires a marketing effort to better explain to clients that they need to pay the firm to provide the services it offers – including research and asset allocation.

Duhamel expects to see a clearer divide in offerings going forward, since it is not realistic to try to do both brokerage and fee-for-service. "We will see a greater emergence of those firms which have the expertise and track record of managing client money," he says. This is in line with the shift away from just trading using credit and towards the provision of a more solid foundation for the custody of assets for wealth preservation and transfer.

Vincent Duhamel
Lombard Odier Darier Hentsch

MEETING EXPECTATIONS

This also ties in to getting the right products from the asset management side of the business. "It is all about delivering product strategies at what we are good at. To achieve this, we segment firms into different types of players – from beta players at very low cost, to smart beta, to firms that can provide genuine alpha via a superior capability," says Duhamel.

While a lot of products show consistent performance, those firms which can create a niche to move away from a herd mentality are appealing. ■

MAKING MORE OF THE GROWING MASS AFFLUENT MARKET

AMY CHO, MANAGING DIRECTOR AND REGIONAL HEAD OF BUSINESS DEVELOPMENT FOR PICTET ASSET MANAGEMENT IN ASIA PACIFIC (EX JAPAN), OUTLINES THE PROGRESS THE FIRM HAS MADE IN SERVICING RETAIL CLIENTS IN NORTH ASIA.

As the population of mass affluent individuals continues to swell in North Asia, the attraction of providing funds to this ever-growing audience has been an important focus for Pictet Asset Management.

The firm has built a solid distribution base for this segment in Hong Kong. And since the establishment of Pictet SICE as its own master agent in Taiwan in March 2012, it has seen good results from the first full calendar year in 2013 of targeting retail buyers, says Amy Cho, managing director and regional head of business development for Pictet Asset Management in Asia Pacific (ex Japan). The past 12 months, for example, have witnessed successes in Hong Kong via leading distribution partners like Bank of China, Hang Seng Bank and Standard Chartered Bank; and in Taiwan it has secured tie-ups with key distributors like Chinatrust Commercial Bank and Citi.

> Broadly, about 60% of Pictet Asset Management's AUM in Asia ex-Japan is from the wealth management sector, a balanced contribution from private banking and retail. The rest of the AUM consists of institutional assets.

The firm also has a three-strong team focusing on Greater China equities – two senior investment managers and one analyst. In addition, there is a team of three Asian Equity traders.

IN NEED OF MORE ATTENTION

To service this part of the market, however, fund managers need to continually adapt sales and marketing materials and their levels of service support, plus tailor them to the different customers.

That is partly because of the regulatory changes, but also because of the growing sophistication of many mass affluent individuals. Distributors are therefore requesting more timely and accurate market information from fund managers – not exclusively about the portfolio but more importantly the impact of market events on performance. "We need to ensure we equip advisers at the banks with information to, in turn, inform their clients," says Cho.

The rush to win market share among the emerging affluent is also leading to more creative marketing strategies as

Amy Cho
Pictet Asset Management

part of brand-building efforts. "Besides print and outdoor advertisements, it is not uncommon to see TV advertorials which promote wealth management services to the wider affluent community," says Cho. While product and performance are always important, brand strength remains a key buying factor for Asian investors. ■

ROBECO TAKES SELECTIVE APPROACH TO ASIAN DISTRIBUTION

FOR TONY EDWARDS, CHIEF EXECUTIVE OFFICER FOR ROBECO IN ASIA PACIFIC, SUCCESS IS SIMPLE: MAINTAIN A HANDFUL OF KEY DISTRIBUTION PARTNERSHIPS AND DELIVER CONSISTENT INVESTMENT RETURNS FOR THEM.

Tony Edwards has a straightforward philosophy in driving the value proposition for Robeco's wholesale business in Asia Pacific: make the firm's clients successful. "This Socrates-like approach to the business means we need to be close to our clients, listen to them and understand their challenges," says Edwards.

In practice, this means providing consistent investment returns. A few features of the Robeco business in Asia make this possible. First, is the stability within our investment teams. Secondly, the firm is focused on a limited number of key accounts. And thirdly, the acquisition of Robeco by ORIX in 2013 has enhanced the firm's appeal.

BEING SELECTIVE - AND STABLE

Edwards is determined not to spread the firm's wholesale distribution business far and wide. "We don't want to be across insurers, family offices and smaller banks. We prefer to work with five or six key accounts in the Asian wholesale space (ex-Japan, Australia)."

The logic is that by working with a limited group of private banks, the firm can devote more time, attention and resources to them. And assuming this means these clients are profitable, Robeco will inevitably prosper, too.

While this means there is a trade-off with a more diversified, broader set of wholesale distribution partnerships, the reality, explains Edwards, is that the success of asset gatherers in Asia is polarised. "We aim to leverage the best of Robeco into the most relevant client prospects," he says. "We also have to be focused given the need for scale when servicing the larger banking distribution platforms."

The confidence he has in the ability of the two Asia-based investment teams – in Hong Kong and Mumbai – to deliver investment returns, and replicate these going forward, is driven by people, making stability is vital. "The larger distributors can see whether stability in investment capability and personnel is there in an asset manager," he adds. "If we get that right, we can then execute on this strategy."

That is something many of the newcomers in the wholesale landscape in Asia might struggle with. "There is a large cost in putting teams together, and the pay-off takes several years".

Tony Edwards
Robeco

The firm's ability to innovate has also bred success, he adds.

"We have been good at product innovation with our global high yield strategy. We developed a zero duration share class in response to concerns of clients about interest rate risk going into 2014." ■

APPLYING A GOLD STANDARD TO SINGAPORE

IN EARLY 2013, SEAMUS DONOGHUE FINALLY COMBINED HIS EXPERIENCE IN TRADING FINANCIAL PRODUCTS WITH HIS ENTREPRENEURIAL SPIRIT TO CARVE A NEW PATH IN THE INVESTMENT SECTOR FOR PHYSICAL GOLD TRADING IN SINGAPORE – AND LAUNCHED ALLOCATED BULLION SOLUTIONS.

Around 15 years ago, when Seamus Donoghue first moved to Singapore in 1998, and as a private bank client, he was surprised that he couldn't buy and store gold locally without incurring goods and services tax (GST). Other than Australia and possibly Hong Kong, the easy options were still only Switzerland or London.

It took a while but eventually, in October 2012, that all changed. As part of an initiative to target gold as a key strategic sector, the Singapore government eliminated the GST on investment grade precious metals. And with it, the seed for Allocated Bullion Solutions (ABS) started to take root.

"What became apparent to me," says Donoghue, chief executive officer of ABS, "was that Singapore's wealth sector, unlike traditional wealth centres such as Switzerland and London, was almost wholly lacking any centralised trading, custody and related infrastructure for physical metals."

Even if private banks want to address this demand, they likely have to prioritise their resources. Plus, they are typically caught up in navigating their way through the onslaught of new regulations. Meanwhile, the dealing banks that supply gold into the market are largely only focused on the gold jewellery sector and not the investment sector, given the previous GST tax regime.

And the continued compression in the investment banking sector means that there are limited resources available to build out coverage to a new emerging sector beyond their own internal private wealth operations.

"It was clear that elimination of the tax had opened up a significant opportunity," explains Donoghue.

ABS was established in Singapore in March 2013 with the objective of bridging the investment sector and the institutional dealer community, he adds.

GROWING LOCAL APPETITE IN ASIA

According to Donoghue, there are some key macro trends that provide very favourable tailwinds to the build out of a physical gold eco-system in Singapore: the shift from paper gold to physical gold; unallocated to allocated gold; and West to East.

Seamus Donoghue
Allocated Bullion Solutions

"Although holdings in gold ETFs that are largely listed in North America and in Europe have fallen significantly this year, the demand for physical gold in the form of bars, coins and jewellery coming from Asia has actually increased by an even larger amount," Donoghue adds.

Direct ownership of physical gold, instead of via an unallocated pooled account or a share in a trust, is the key demand driver in Asia.

"Gold in the West is viewed as a commodity while in Asia, in any of its various forms including jewellery, it is viewed as a safe-haven currency or store of wealth," he explains.

"The key in Asia is not convincing investors to hold gold – outside of real estate it is often already their preferred asset – but rather to provide them a better way."

ADAPTING THE BUSINESS MODEL

A combination of appetite in Asia, the firm's vision, and market and client feedback has led ABS to focus on providing a much broader set of solutions.

The key strategy of the business has been to leverage existing market infrastructure to transform the over-the-counter (OTC) physical gold market by providing an open, accessible, electronic marketplace to a fragmented and opaque market supported by efficient, scalable, and standardised solutions, explains Donoghue.

"ABS offers an aggregated multi-dealer trading platform where ABS acts as the executing broker and trades are settled bilaterally," he says.

After managing foreign exchange, money market, bond and derivative trading businesses in major investment banks for over 20 years, as well as being actively involved in building electronic trading platforms, Donoghue has seen the migration to multi-dealer platforms in every financial product except physical gold. Until now.

"We are also working on a number of clearing solutions that would result in a single on-boarding process and set of standard documentation for a private bank to access multiple dealers and custodians," he says.

"We work with a leading post-trade processing partner to integrate the trading and settlement of physical gold into the foreign exchange architecture of the banks. We see a significant opportunity to leverage Singapore's position as the largest foreign exchange hub in the region."

Yet Donoghue believes the real appeal for the private banks is collateral.

"Gold itself is a low-margin product but collateralising it allows the client to potentially reinvest the funds and put their money to work, while offsetting their gold custody costs," he explains.

Meanwhile, the private bank has the opportunity to sell the client a higher-margin product, he adds.

"Our trading platform provides the private bank a clear valuation mechanism so they can comfortably lend the client money against their holdings."

The inventory management solution provides the private bank with the required infrastructure to track the specific gold bars that have been pledged and monitor collateral margins – what Donoghue describes as a win-win for all parties involved.

Asian preferences

- The standard format of gold in London is the London Good Delivery Bar, which is a 12.5 kg bar of 99.5% purity. The London bar at current prices is worth roughly US$530,000.
- In Asia, the investment sector has a preference for 1 kg bars of 99.99% purity, which at current prices are worth roughly US$43,000 each.
- In 2013, the refiners have seen long waiting lists at as bars are converted, or rather remoulded, from the large format to 1 kg bars as they are shipped from West to East to satisfy Asia demand.

ENSURING INTEGRITY, LIQUIDITY AND PRICING

Given the risk of fraud with physical gold, given its high value, the ABS platform only sources from London Bullion Market Association (LBMA)-recognised dealers, or directly from the refiners. And in all cases, it maintains a full chain of custody audit trail.

"If there were any question of provenance of gold supplies they are sent to partner-LBMA refiners to be melted down, assayed and remoulded into new bars," says Donoghue.

The firm's dealing platform also adopts the standard liquidity platform architecture that exists in the foreign ex-

change market. "We partner with the leading institutional dealers to provide unparalleled liquidity," he adds. "To ensure the platform can scale participation, we are also adapting the standard prime broker model used for financial markets and applying it to the physical gold market."

According to Donoghue, this is a first: "It is transformative for what is currently an opaque, fragmented and bilateral market."

Further, in addition to driving down local physical gold pricing premiums and bid-offer spreads through the trading platform, ABS is also focused on eliminating manual processes and physical gold movements that traditionally make physical trading more expensive than paper trading.

"We are working with a leading post-trade processing partner to automate all confirmation, affirmations, trade data enrichment and custodian communications," says Donoghue.

"ABS can act as the primary custodian for a private bank and ABS in turn has the major vaults as their sub-custodians. Our platform aggregates holdings across sub-custodians."

The benefit, he adds, is that for any given transaction the gold can be allocated into the private bank client name but can remain in the seller's custodian until such a time that there is sufficient quantity to make it cost-efficient to consolidate into a single custodian.

ENSURING HIGH STANDARDS

Donoghue is also proud of the processes the firm has in place to adhere to industry best practices and rigorous regulatory requirements.

"We design all of our solutions in consideration of the latest MAS, ISDA, or other similar regulatory or governance body white-papers on industry best practices," he explains.

Even though gold is not a regulated asset in Singapore, ABS acts as a self-regulated entity and applies the same rules that the MAS prescribes for the banks, for example: full know-your-client (KYC) and anti-money laundering (AML) reviews of potential clients, as well as recommended best practices for its solutions.

"Our main client base is regulated financial institutions based in Singapore so that makes the process a little easier," he adds.

OPPORTUNITIES

With growth at the forefront of strategy, the ABS solutions are based on an open and scalable architecture.

Most of the company's competitors, by contrast, have designed closed systems that have capped their custodial solutions in the US$2 billion to US$3 billion range.

"Given our drive is to bring transparency, scale and efficiencies to the OTC physical market, and the expected growth of Singapore as a wealth centre," says Donoghue, "we think the market potential, from an AUM or custody perspective, is the US$90 billion gold ETF market."

If these efforts at building out the full gold eco-system in Singapore go according to plan, that should be just the first major milestone for ABS. ■

Critical success factors for ABS

- Unparalleled pricing and liquidity through the firm's multi-dealer aggregated liquidity trading platform for physical gold
- A platform to leverage the wealth sector's requirements with the dealing community – standardised terms of trade and documentation
- Automated post-trade capabilities, leveraging on post-trade workflow partners that have existing integrated infrastructure which can be extended to physical gold
- Clearing and collateralisation solutions
- Custody solutions with LBMA sub-custodians
- A full trade lifecycle inventory management system which can aggregate clients positions across various sub-custodians
- All solutions can be white-labelled

BREEDING THE RIGHT BEHAVIOUR AND KNOWLEDGE AMONG ADVISERS

M&G INVESTMENTS IS INTENT ON MAKING SURE CLIENT ADVISERS AND INVESTMENT COUNSELLORS AT THE REGION'S PRIVATE BANKS ARE ARMED WITH HIGHER LEVELS OF TECHNICAL KNOWLEDGE AND A BETTER APPRECIATION OF THE BEHAVIOURAL BIASES OF THEIR CLIENTS, EXPLAINS ANDREW HENDRY, MANAGING DIRECTOR FOR THE FIRM IN ASIA.

In a crowded marketplace for asset managers to develop private banking relationships in Hong Kong and Singapore, providing bankers with tangible skills and knowledge so they can offer more insightful and relevant advice to their clients makes a real difference.

In practice, this means providing technical investment knowledge to relationship managers (RMs) and investment counsellors on the one hand, and guidance on what behavioural biases influence decision-making on the other.

"Fund managers can market generically about the brand and flagship products. But one-on-one interaction, with tangible content, can be very effective in articulating the actual value of the brand and developing deeper relationships," says Andrew Hendry, managing director of M&G Investments in Asia.

INVESTMENT KNOW-HOW

Investment counsellors have a clear need for higher technical support from their product providers.

For example, there are roughly 4,500 relationship managers in private banking in Hong Kong and Singapore, yet a limited number of fund selectors and product gatekeepers – who are the best source of investment fund knowledge. "So how does the universes of bankers – and in turn the tens of thousands of end-clients they service – access technical information, such as tracking error of funds, historical performance of specific funds?" asks Hendry. "That creates a bottleneck."

He and his team therefore talks directly to investment counsellors about M&G portfolios to spread relevant knowledge on the funds.

The ideal relationship for Hendry, he says, is where he and his team are viewed as an extension of the internal product team.

ADDRESSING BIASES

Another differentiator in servicing distributors comes through conducting behavioural finance workshops. This highlights for client advisers that there are some fundamental flaws in decision-making, explains Hendry. "It enables them to be a lot more confident when discussing with their clients concepts such as asset allocation, and when proposing products."

Andrew Hendry
M&G Investments

Plus there is an important multiplier effect. "Being able to properly understand the various biases also benefits client advisers in terms of changing how they think themselves about portfolios," he adds.

In turn, they can pass this on to their clients through such self-awareness. ■

BRINGING INSTITUTIONAL KNOW-HOW TO ASIA'S WEALTH LANDSCAPE

MARK KONYN, CHIEF EXECUTIVE OFFICER OF CATHAY CONNING ASSET MANAGEMENT, DESCRIBES HOW THE FIRM IS STARTING TO APPLY ITS EXPERTISE IN BUILDING ECONOMIC SCENARIOS AND VIEWS ON RISKS TO HELP SOME PRIVATE BANKS CREATE A MORE STRUCTURED APPROACH TO DEVELOPING THEIR STRATEGIC ASSET ALLOCATION.

As many private banks look to become more focused and formalised in relation to the advice they give clients on their portfolios, one option is to use institutional techniques and tools.

A combination of factors means interest in such capabilities is growing in Asia. In addition to the current environment and stage of the credit cycle, plus the prospect for short-term interest rates in the coming years, it is also an after-shock of the financial crisis.

As a result, gatekeepers need to be able to better assess how the different products fit into a portfolio, says Mark Konyn, chief executive officer of Cathay Conning Asset Management. "The disruption in markets and a greater emphasis on the quality of advice has focused the attention of gatekeepers on finding managers which can offer a specific expertise."

INSTITUTIONAL QUALITY

Cathay Conning's investment know-how has been built on its institutional expertise in the US – and more recently a set of Asian equity strategies. As a complement, the consulting arm looks at strategic asset allocation, based on an economic scenario generator which assesses tail risk for various approaches to asset allocation, and then uses an optimisation approach.

More specifically, the scenario generator builds up a profile of likely outcomes based on economic relationships and then adds a layer of asset-class behaviour, he explains. It is then possible to build tailored portfolios based on the firm's views and its understanding of the downside risk.

"When markets are in a steady state, investors get the benefits of diversification," says Konyn. "But where there is stress in the financial system or markets, positive correlations develop that might not have been expected."

SMARTER ALLOCATIONS

This is where the interest lies from several wealth management groups – especially, says Konyn, where they need a more formalised approach to developing their strategic asset allocation advice for their clients.

Ultimately, the aim is to help gatekeepers focus on long-term relationships between the underlying factors which drive asset-class performance. "It helps those responsible for setting asset allocation to understand what is likely to happen if things don't go according to plan," says Konyn, "and therefore avoid allocations based on scenarios where investors stand to lose a significant amount of capital over a short period of time." ■

Mark Konyn
Cathay Conning Asset Management

PRINCIPAL GLOBAL INVESTORS SHARPENS PRIVATE BANKING FOCUS

FOLLOWING HER ARRIVAL AT PRINCIPAL GLOBAL INVESTORS IN LATE 2013 AS HEAD OF FUNDS DISTRIBUTION FOR ASIA, JANE FUNG EXPLAINS HOW SHE PLANS TO ADD TO THE FIRM'S EXISTING INSTITUTIONAL FOCUS WITH A MUCH GREATER EMPHASIS ON PROVIDING TARGETED OFFERINGS TO PRIVATE BANKING PRODUCT PLATFORMS.

Jane Fung
Principal Global Investors

Jane Fung has the product platforms of local, regional and international private banks firmly in her sights as part of her mandate at her new employer.

"We have a lot of products through our multi-boutiques which are suitable for high net worth investors," says Fung, who became head of funds distribution for Principal Global Investors in Asia in October 2013.

As a result, the firm will profile its offering to these distributors in 2014.

"We will sharpen our focus with this customer segment within the private banks by selecting what's relevant for them and putting them into a UCITS format," she adds.

PREPARING FOR A MORE TAILORED APPROACH

Given this initiative is in addition to the firm continuing to focus on servicing its institutional customers, it's a bold goal.

For instance, the investment needs of high net worth individuals tend to require a more tailored offering, as do the preferences of each bank.

So it's not possible to be broad brush – either for distributors or end-clients.

Plus, there are differences between the needs of different types of private banks, depending on which markets they are in, and whether they are local or global, or new or established.

For example, says Fung, a lot of the distributors which have more established local businesses in Asia want to have fewer products on their platforms and limit their relationships to fewer providers.

"This is understandable because they want to streamline the number of products that their relationship managers are talking about to clients, since they have broadly similar needs," she says.

"It also gives them more control over their product range."

For these banks, a product provider needs to be very targeted in understanding the niche that each firm wants to fill.

On the flipside, says Fung, newer players which are entering the region and testing the market are unlikely to limit their product offering at this stage of their development.

"They are looking to build relationships with a wide group of product providers. They are often trying to service a wide range of products through a hub in Singapore or Hong Kong." ■

BACKING THE RIGHT HORSE

ROBECO'S CHIEF ECONOMIST LÉON CORNELISSEN OUTLINES SEVERAL KEY PREDICTIONS AS PART OF HIS OUTLOOK FOR MARKETS IN 2014.

FAVORABLE CLIMATE FOR HIGHER-RISK INVESTMENTS

Stocks are Robeco's preferred asset class for 2014.

However, returns may not be as strong as in 2013, when the MSCI World Index rose almost 16% in the first 10 months of the year in euros on the back of stimulus from quantitative easing (QE) programmes.

"It will be a year in which higher-risk investment categories will provide satisfactory returns," says chief economist Léon Cornelissen.

"Expanding global growth combined with continuing loose monetary policy favours higher-risk asset classes."

High-yield bonds are favoured in the fixed income sphere, as the end of QE – beginning with tapering by the US Federal Reserve (Fed) expected from the Spring – signals a new era of rising interest rates.

This makes the returns on high-yield debt relatively more attractive than those available on sovereign bonds.

POLITICS WILL BE THE UNPREDICTABLE PART

However some political risk remains. The Eurozone has come a long way since the height of the euro crisis in 2011, with growth expected to rise towards 1% in 2014.

"Less emphasis on austerity will support recovery in the Eurozone," says Cornelissen. "This will mean that earlier deficit targets will again not be achieved."

"It is nonetheless very unlikely that the European Commission will impose fines on miscreant nations," he says.

Just as unlikely, he adds, is a fine for Germany because of its continuing excessive current account surplus.

Although in theory the Commission's powers for achieving a more centrally directed budget policy have increased greatly in recent years, these will still turn out to be a paper tiger in practice, due to the lack of political support.

"The outcome of the European parliamentary elections in May 2014 will be an unsurprising but still unpleasant confirmation of this lack of support."

The US also faces the potential wrath of voters after the world's largest economy only averted debt default when the government was shut down amid wrangling over raising the debt ceiling.

US Congressional elections will take place in November, potentially dislodging those Republicans who had opposed Democrat President Barack Obama during the shutdown.

THREE SCENARIOS FOR QE

With regard to QE, Cornelissen outlines three different scenarios, with differing likely outcomes.

"Quantitative easing will come to an end in the US, will probably not start in Europe, and will be expanded in Japan," he predicts, adding that tapering the Fed's QE programme will cut the value of government bonds purchased from US$85 billion a month to zero over a period of six to nine months from March or April. "Limited long-term interest rate rises in the Eurozone and the US are likely, but this will probably not happen in Japan because of financial repression," says Cornelissen.

That is because the extraordinary Japanese economic experiment known as "Abenomics", in which Prime Minister Shinzo Abe has combined QE with an assault on deflation and a pledge for structural reform, faces its biggest test next year. VAT will be raised by 3% in April in order to encourage greater spending in the first quarter, thereby averting deflation.

But it runs the risk of triggering a recession similar to the one that followed the last VAT-rise experiment in 1997.

In the long-embattled Eurozone, Cornelissen expects "moderate economic recovery", eventually rising above 1% a year.

However, he warns: "Positive investment growth is also necessary to achieve recovery in the region. And it is necessary to control political tensions for this recovery to work."

MIXED BAG FOR EMERGING MARKETS

Globally, Cornelissen expects "moderately increased growth in the developed economies outside Japan", but the picture for emerging markets is expected to be mixed.

He says that China will slow down to some extent, while other emerging markets will speed up to a limited degree. "Accelerated Chinese growth is not sustainable and the authorities are again taking the path of monetary tightening," says Cornelissen. "All in all, we are counting on growth in the order of 6% against 7.5% in 2013."

Because of the economic recovery in the developed world, he also believes

there is a plausible case for limited recovery in Brazil (where there are also elections in 2014), India and Russia.

EARNINGS WILL BE KEY TO SUCCESS FOR STOCKS

"Overall, the macroeconomic climate will be more favorable for stocks in 2014 than in 2013," says Cornelissen.

"Gradual interest rate rises in a low-interest rate climate are a positive signal that the US economy is in principle strong enough to support corporate profits by increasing consumption and investments. But earnings will be the key to success in 2014."

Equity price rises in 2013 were mostly driven by stocks achieving higher multiples – a company's share price divided by its earnings per share – as both profits and business sentiment generally improved due to stimulus from QE.

This may not be repeated next year when QE begins to be withdrawn, Cornelissen warns.

"We expect to see a more gradual expansion of price/earnings ratios, modest profit growth and somewhat greater market volatility," he says. "These factors will make it difficult for stocks to equal or exceed their excellent 2013 performance in 2014."

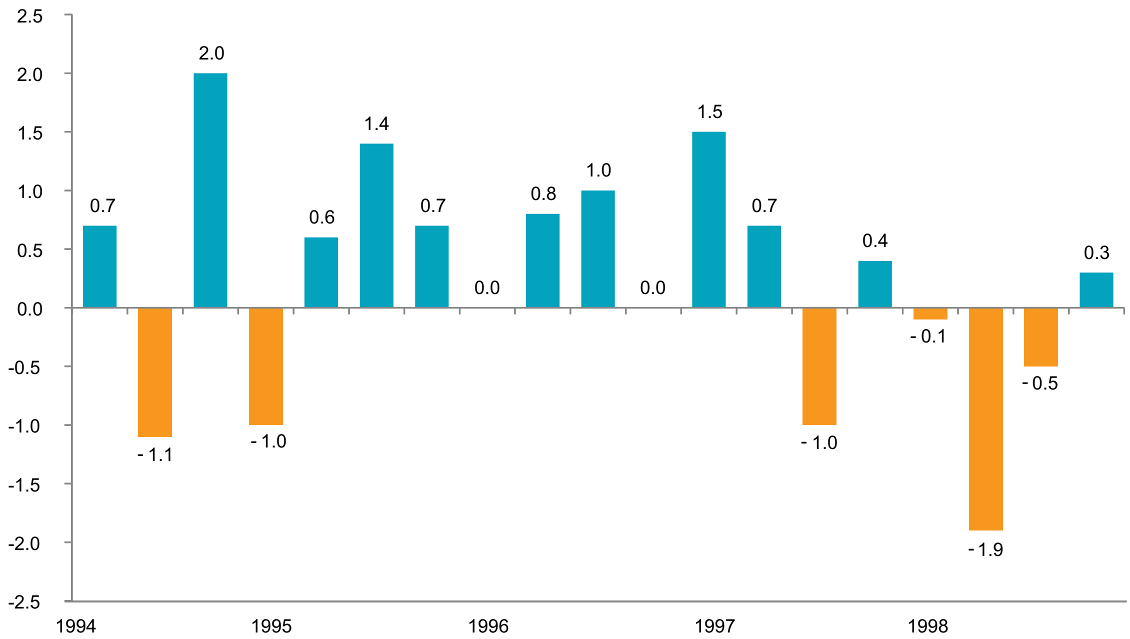
BOND YIELDS WILL GRADUALLY RISE

In fixed income, high-yield bonds are preferred. "Low interest-rate policies in recent years have given businesses sufficient opportunities to issue longer-term bonds at favourable rates," says Cornelissen.

"Still, we note that this asset class is losing some of its glamour. The reward for credit risk has dropped to 450 basis points and therefore lies below the 10-year average of 610 basis points."

For emerging market debt, the current return on credit risk is 500 basis points. While this is 50 basis points higher than the equivalent return on high-yield corporate bonds with a similar duration, Cornelissen does not believe it will compensate for the significant currency risk to be seen in 2014. This is due to emerging markets currencies continuing to devalue against the US dollar as they struggle with economic growth.

JAPAN GDP GROWTH RATE



Source: The Cabinet Office, www.tradingeconomics.com

"As emerging markets catch up economically, the current undervaluation of currencies (at this time over 40% based on purchasing power parity) will gradually translate into currency profits and offer solid returns on emerging market bonds in the longer term," Cornelissen says.

For sovereign bonds, the Fed's tapering plans mean higher yields – and bond values falling in tandem – as interest rates gradually rise.

"Both US and German government bonds are approximately 100 basis points lower than one would expect due to money market interest rates, inflation and growth prospects," says Cornelissen.

"We expect that bond yields will gradually increase during 2014 towards the levels that would be appropriate with further increasing economic growth." ■

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ROBECO

FINDING VALUE AT THE FRONTIER

KARINE HIRN, EAST CAPITAL'S FOUNDING PARTNER, EXPLAINS HOW THE FIRM IS APPLYING ITS EXPERTISE IN UNDERSTANDING TRANSITION ECONOMIES – AND IN NAVIGATING THEIR EMERGING MARKETS – IN ASIAN EQUITY MARKETS.

Swedish-based investment manager East Capital is no stranger to investing in markets that many of its peers shy away from.

It has invested in the frontier and emerging markets of Eastern Europe and Russia since the firm was founded in 1997, and claims to be the only specialist providing such products with a presence in Asia, says founding partner Karine Hirn.

FOCUSED STRATEGIES

The firm opened an office in Hong Kong in 2006 to distribute and market its emerging and frontier market funds focusing on Central and Eastern Europe, Turkey and the Balkans, Russia and neighboring countries. In 2010, it created three specific Asian strategies.

These are: a daily traded equity fund investing in Chinese H and B shares; a daily traded equity fund investing across emerging Asia ex-Japan; and a closed-end A-shares fund.

"We believe that by being local, meeting companies and utilising our vast network we can gain an information advantage over traditional and generalist investors," explains Hirn.

The investment philosophy is about focusing on fundamentals rather than benchmark weights. "Since inception our emerging Asia fund is 17.7% over the index and our Russia fund 701.5% over its index (both in USD)," she says.

A WAITING GAME

Hirn says the investment mandate of the Asian fund will grow in 2014 to include India and other frontier markets in Asia.

"2014 might be the year when emerging markets become more attractive again but this would probably be not across the board, instead some countries stand out to be more interesting than others, both within Eastern Europe and within Asia."

There is potential to benefit from the connectivity between the two regions.

"Many investors in Asia have not even started to look at Eastern Europe and Russia, while European investors are still structurally underweight in their portfolio allocation for Asia, and especially China," explains Hirn. Yet she is realistic about the pace at which this will evolve. And in an ever-more competitive environment it is important to have a clear value proposition and be long term. "Investing in emerging markets is a marathon, not a sprint." ■

Karine Hirn
East Capital

CREATING A CREDIT OPPORTUNITY FOR ASIAN INVESTORS

CLIFF NOREEN, PRESIDENT OF BABSON CAPITAL MANAGEMENT, EXPLAINS WHY THE TIME IS RIGHT TO APPLY ITS CREDIT INVESTING EXPERTISE TO THE HIGH NET WORTH MARKET IN ASIA.

Against the backdrop of expectations of relatively low interest rates in 2014, the hunt for yield should continue. This means more asset flows into floating-rate investment products. Plus, multi-strategy and multi-sector products will be sought after. And in the fixed income space, investors are being paid more by investing in less liquid investment products, like CLO liabilities, corporate private placement debt and real estate mortgages.

Babson Capital Management is well-positioned within this environment. As a fundamental, bottom-up investor specialising in global fixed income and alternative investments, its core expertise spans the credit investment spectrum, covering both liquid and illiquid products. The firm offers commingled vehicles, as well as segregated accounts. And it recently began an expansion into the wealth management platforms in Asia (and globally).

Cliff Noreen, president, is confident about the firm's offering in Asia. "We believe our product range in global fixed income fits naturally with investors in Asia."

In particular, he explains, there is potential for illiquid offerings to be of interest to high net worth (HNW) investors who seek a regular income, and who are also able to accept less liquidity with their capital.

BROADENING THE OPTIONS

Fund penetration is still relatively low among HNW investors in Asia for three main reasons: first, many of them take a more active approach to their portfolio and invest directly more often; secondly, a significant portion of their wealth is tied to the businesses that created their wealth; and thirdly, they hold substantially more cash compared with wealthy individuals in other parts of the world.

However, Noreen believes that as more asset classes and product options are made available, these dynamics will change. "The uptake of discretionary portfolios managed by private banks that in turn invest in funds is a good start," he says.

Investor education about less-understood asset classes will also help build more comfort for investors.

Further, Noreen says he is seeing more common themes among wealth channels globally, including products, and the level and delivery of information.

Cliff Noreen
Babson Capital Management

"This creates a synergy that we can leverage as we build this business globally," he says. "However, what's equally important is also our ability to customise to suit Asian needs, rather than take a one-size-fits-all approach." ■

ADDING VALUE THROUGH LOCAL FLAVOUR IN PRODUCT AND PEOPLE

EASTSPRING INVESTMENTS IS CONTINUING TO BROADEN AND REFINE ITS ASIAN EXPERTISE ACROSS ITS 11 LOCATIONS IN THE REGION, AND HAS ALSO OPENED OFFICES IN THE UK AND THE US AMONG KEY RECENT INITIATIVES. CHIEF EXECUTIVE OFFICER GUY STRAPP IS ADAMANT THAT THE LOCALISED NATURE OF THE BUSINESS PROVIDES A CRITICAL SUCCESS FACTOR FOR FURTHER GROWTH AND DIFFERENTIATION.

Unlike many chief executives new to such a role, Eastspring Investments' Guy Strapp has no intention of making sweeping strategic changes just to make his mark.

Instead, he plans to stick to the blueprint he has helped establish and drive over the past seven years as a key figure within the firm. Now at the helm, he says the plan is to further deepen and to some extent broaden the investment management capabilities. "More specifically," he adds, "we will provide more quality Asian product to our local client base".

This approach has been effective for the firm in recent years, enabling it to accumulate US$100 billion in AUM, split fairly evenly between mainly long-only equities and fixed income.

Further, the Asian legacy and focus insulates Eastspring more than most from some of the competitive pressures all industry players face.

"To replicate what we do – with 11 offices, nine of which host investment management teams that successfully run money in local assets and offer local solutions for clients – is difficult and expensive," says Strapp.

THE VALUE OF BEING LOCAL

With growing client demand in developed markets over the past 12 months for Asian strategies, Eastspring has taken its expertise to New York, where it has launched an institutional business, and more recently to London, where there is a mix of an institutional and wholesale focus.

In Asia, the clear local flavour across the business can be seen through our running assets for retail investors – for Mums and Dads in Seoul, for example, a model replicated across the region.

Indeed, Strapp's priority for the time being is North Asia, given the deeper wallets in the more developed markets of Hong Kong, Taiwan, Japan and Korea. South-east Asia, meanwhile, is more of a medium-term prospect. "The opportunity [in that part of the region] from a mutual fund perspective in terms of wholesale distributors is a few years out," he explains.

That hasn't stopped Eastspring making tactical advances in key locations. For example, it opened an office in Jakarta in 2012, and transferred into it any Indonesian assets held in Singapore.

Guy Strapp
Eastspring Investments

The strong "local" element can be seen in the firm's leadership, too. "Every CEO is a local national," says Strapp.

"There wouldn't be the same value-add of having 11 offices in Asia if they were all run by expats. Further, three of the 11 are women, adding diversity in terms of opinion and perspective." ■

WHY PARTNERSHIPS ARE THE KEY TO DISTRIBUTION SUCCESS

STANDING OUT AMID THE VAST NUMBER OF ASSET MANAGEMENT FIRMS AND INDIVIDUAL FUNDS RELIES ON A CLOSER RELATIONSHIP WITH DISTRIBUTORS – TO BETTER UNDERSTAND THE END-CLIENTS' NEEDS, AS WELL AS CREATE PRODUCTS THAT CAN STAND THE TEST OF TIME, SAYS GRANT LEON, HEAD OF PRIVATE WEALTH SALES AT CAPITAL GROUP.

A growing theme in both the wealth and asset management industries globally is consolidation, due to cost, regulatory and other pressures.

What this means for those asset management companies which are serious about being on the right side of the trend to grow their distribution businesses, is the need to ally with those wealth management players well-positioned for the future. "We are focused on building relationships with the firms that we expect to be the winners in the long term," says Grant Leon, head of private wealth sales at Capital Group.

PARTNERSHIPS

Achieving that requires a different approach. "We want to develop more of a partnership with those [wealth] organisations," explains Leon. Helping to drive this is the increasing connectivity between the product and marketing, in line with what has been happening within many wealth management firms. Such developments are closing the gap a little in terms of the connection between the asset manager and the ultimate HNW clients.

More specifically, sharing ideas enables greater insight into what end-clients are thinking, feeling and requesting. "It helps us to work with the wealth managers to ensure the investment capabilities we are delivering are in line with client requirements."

Providing more sustainable products is another part of creating deeper relationships with distributors. For example, Leon says Capital Group won't launch specialised products. "Our differentiating factor is creating products where we believe there is a long-term requirement for that investment capability for investors." The firm recently launched World Dividend Growers, a global equity income approach focused on future dividend growth – a strategy it believes will help clients achieve their long-term objectives.

That tallies with his view that there are too many fund managers and too many funds. Given that the flows actually go into less than 1% of funds available, Leon expects to see more money flowing into fewer fund managers, and fewer funds going forward. In turn, this is driving companies to consolidate the number of funds they offer.

Developing its private wealth distribution partnerships in Asia has become ever-more important to Capital Group, which has had a presence in the region for more than three decades, but has substantially increased its investment in its non-US growth strategy in the last 12 to 18 months. Despite a conservative nature in general, Leon says the privately-owned, independent fund management company no longer wants to rely so heavily on the US markets, which currently account for the majority of the US$1.3 trillion AUM. ■

Grant Leon
Capital Group

High-Impact Briefings

Our High-Impact Briefings are an exciting, new format of targeted and interactive gathering – limited to 3 partners and tailored for 30 senior product gatekeepers at the leading Private Banks, Consumer Banks, IFAs, Independent Asset Managers, Family Offices and Insurance Companies.

The content is delivered through focused and high-impact presentations, with time for Q&A, discussion and debate. To ensure a great use of the time of participants and sponsors, each Briefing is concentrated over 2.5 hours, from 12.00pm to 2.30pm, hosted either in Hong Kong or Singapore.

2014 schedule

Alternative investments

- Tuesday 28th January - Hong Kong
- Thursday 27th February - Singapore

Commodities

- Tuesday 11th March - Hong Kong
- Thursday 22nd May - Singapore

Income strategies

- Tuesday 8th April - Singapore
- Tuesday 2nd September - Hong Kong

Real assets

- Tuesday 29th April - Hong Kong
- Thursday 4th December - Singapore

Getting greater DPM penetration in Asia

- Tuesday 17th June - Singapore
- Tuesday 7th October - Hong Kong

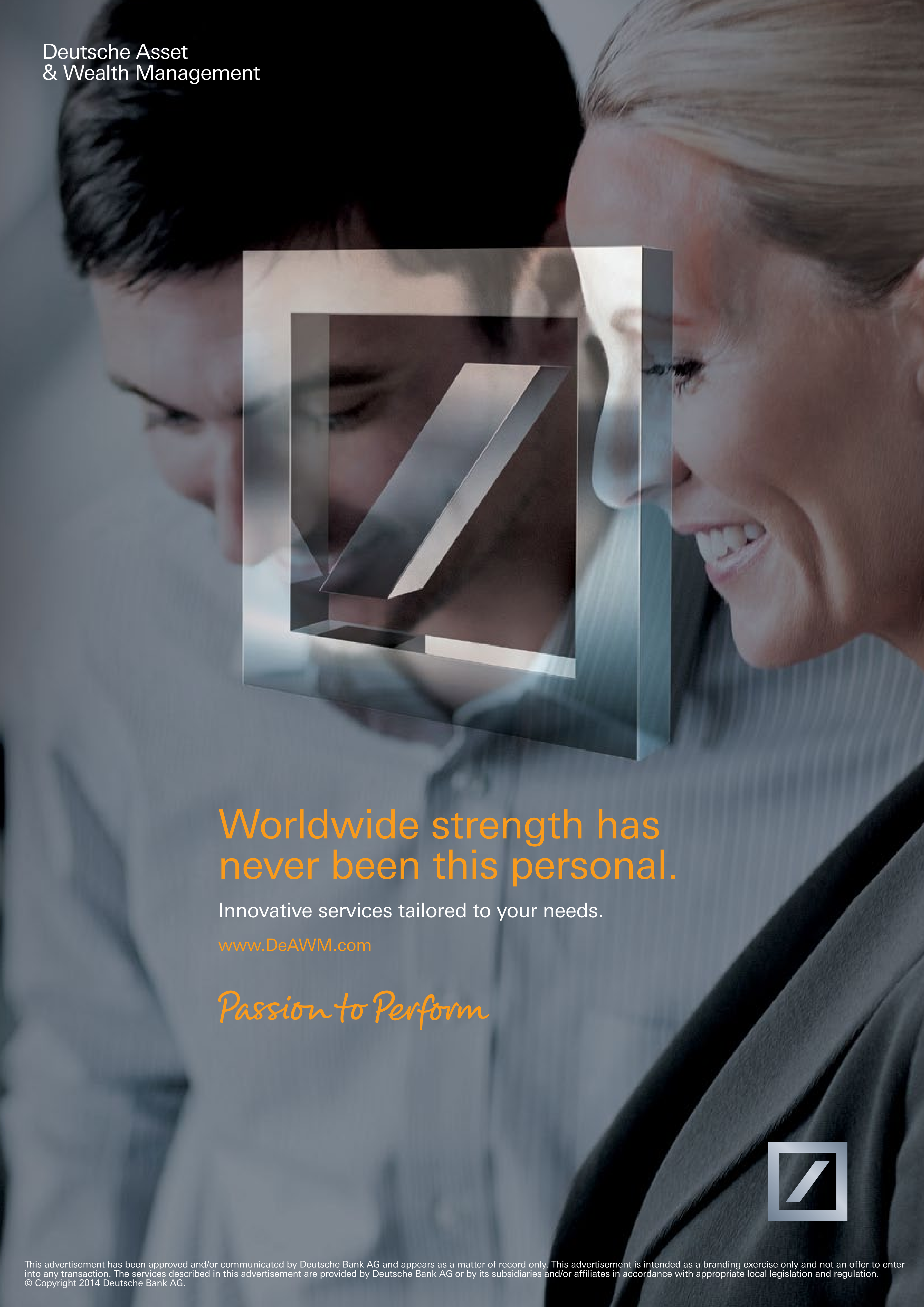
Accessing China's growing wealth

- Tuesday 2nd December - Hong Kong

Taking the Independent Wealth Management industry to the next level

- Tuesday 9th December - Hong Kong
- Thursday 11th December - Singapore

For more information: info@hubbis.com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