Asset and Wealth Management Research Digest

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#StrategyandGrowth

Twelve Trends of Asia's AWM industry

> "Each age has deemed the new-born year the fittest time for festal cheer."
>
> - Walter Scott

2019 in review

Economic uncertainty and market volatility continued to underscore 2019, much the same as its previous year, with events such as the US-China trade war, Brexit, oil price fluctuations, and socio-political environments, among others. Whilst there were periods where tailwinds were experienced, these were quickly met with economic headwinds.

These forces, however, did not halt the growth of the Asian asset and wealth management ("AWM") industry. Instead, they served to shift investors' attention to low risk and income generating products. Simultaneously, regulators increased their pressure on fees, driving down the amounts collected by asset managers and leading to funds being issued with zero or near-zero management fees.

In response, asset managers sought to expand their product suite to include innovations such as smart beta, alternatives, or multi-asset solutions to not only meet the diversification needs of investors but to justify the higher fees associated with the aforementioned products by attempting to deliver alpha. Delivery of the latter may be challenging to achieve for vanilla funds, especially in volatile markets.

Fee pressure is being relieved via the wave of digitalisation sweeping the industry and reducing fund distribution costs. Digital distribution in Asia, though variegated, is aimed towards shared goals like increasing investor reach and the investor base, direct investing, achieving time; cost; and operational efficiencies, and improving financial access and awareness. However, digital distribution also implies lower commissions for traditional distributors who are entangled in an environment of renegotiating fee-sharing agreements with asset managers and competing with digital players equipped with new-age technology.

Along with evolving product and distribution trends, regulators in Asia have gradually opened up their AWM markets to foreign asset managers by loosening regulations in their home country or cooperating with other regulators to ease market entry processes. Such developments provide increased opportunities for local, regional, and global managers, along with investors the length and breadth of Asia.

As 2019 draws to a close, markets are likely looking forward to the holiday effect as much as it's participants.
Just as the Christmas carol 'Twelve Days of Christmas' represents 12 symbolic gifts accumulated over the period, each with their own murky history regarding their significance, we provide, in no particular order of importance, the 'Twelve Trends of Asia's AWM industry' as a festive-themed recap of what drove industry change over 2019.

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Trend 1: Increasing Asian wealth

Increasing wealth across all investor segments in Asia is increasingly shaping the industry. China's entrepreneurs have become the world's second largest billionaire group over the past five years, overtaking Russia's according to PwC's Billionaires Insights 2019. Wealth contained by Chinese entrepreneurs has almost tripled, growing by 202.6% to reach USD 982.4 billion[1]. This trend emerges despite a slight dip in Chinese wealth in 2018 on account of global market volatility. Asset and wealth managers, private banks, and other financial institutions are trying to focus their attention towards serving Chinese wealthy investors not only in Mainland China but also in other parts of Asia. This is reflected by the establishment of operations in Singapore by some global private banks in 2019 who are beefing up their wealth management offerings to cater specifically to Chinese UHNWI and entrepreneurs looking to set up family offices in the lion city. As wealth expansion in Asia-Pacific ("APAC") continues to outpace the rest of the world, rising HNWI wealth in the region is becoming the 'golden egg' of wealth managers looking to expand their client base and levels of AUM.

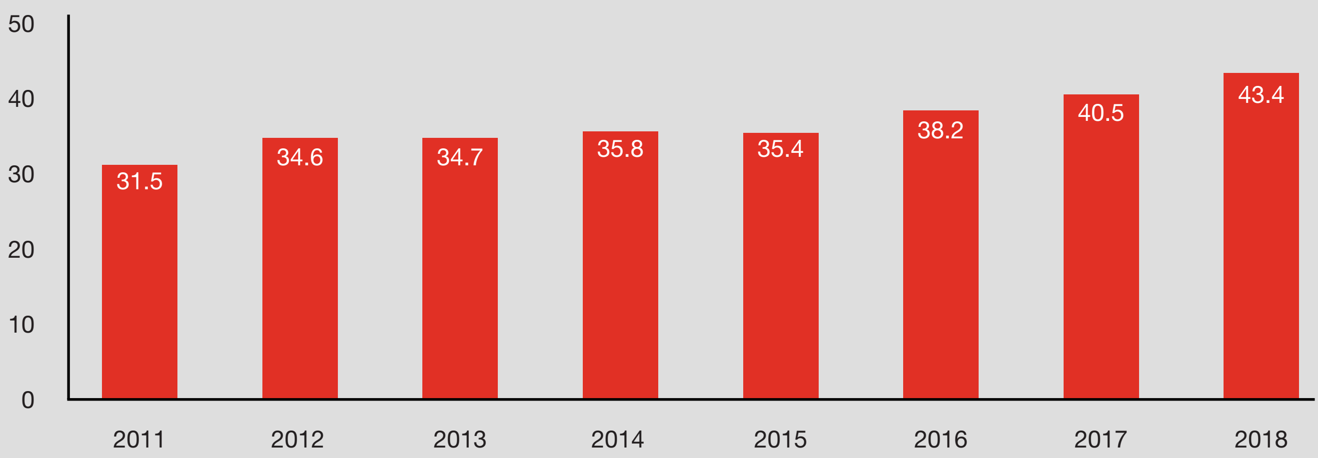
[1] As of 2018

AWM 2025: Total client assets across APAC (USD tn)

Clients	2007	2012	2014	2015	2016	2017	2020e	2025e
Pension funds	2.1	3.2	3.8	3.9	4.0	4.6	5.8	6.8
Insurance companies	4.8	6.7	7.5	7.7	9.1	10.5	11.7	13.7
Sovereign Wealth Funds (SWF)	1.5	2.1	2.6	2.7	2.8	3.1	4.0	5.7
HNWI	9.9	14.3	15.1	15.5	16.9	17.0	19.9	28.9
Mass Afluent	14.2	19.6	19.8	20.4	22.1	22.3	25.9	36.6
Total Client Assets	**32.5**	**45.9**	**48.8**	**50.3**	**54.9**	**57.5**	**67.3**	**91.7**
APAC AuM	**6.4**	**7.7**	**8.8**	**11.0**	**12.1**	**15.1**	**16.9**	**29.6**
Penetration rate	**19.8%**	**16.8%**	**18.1%**	**21.9%**	**22.0%**	**26.3%**	**25.1%**	**32.3%**

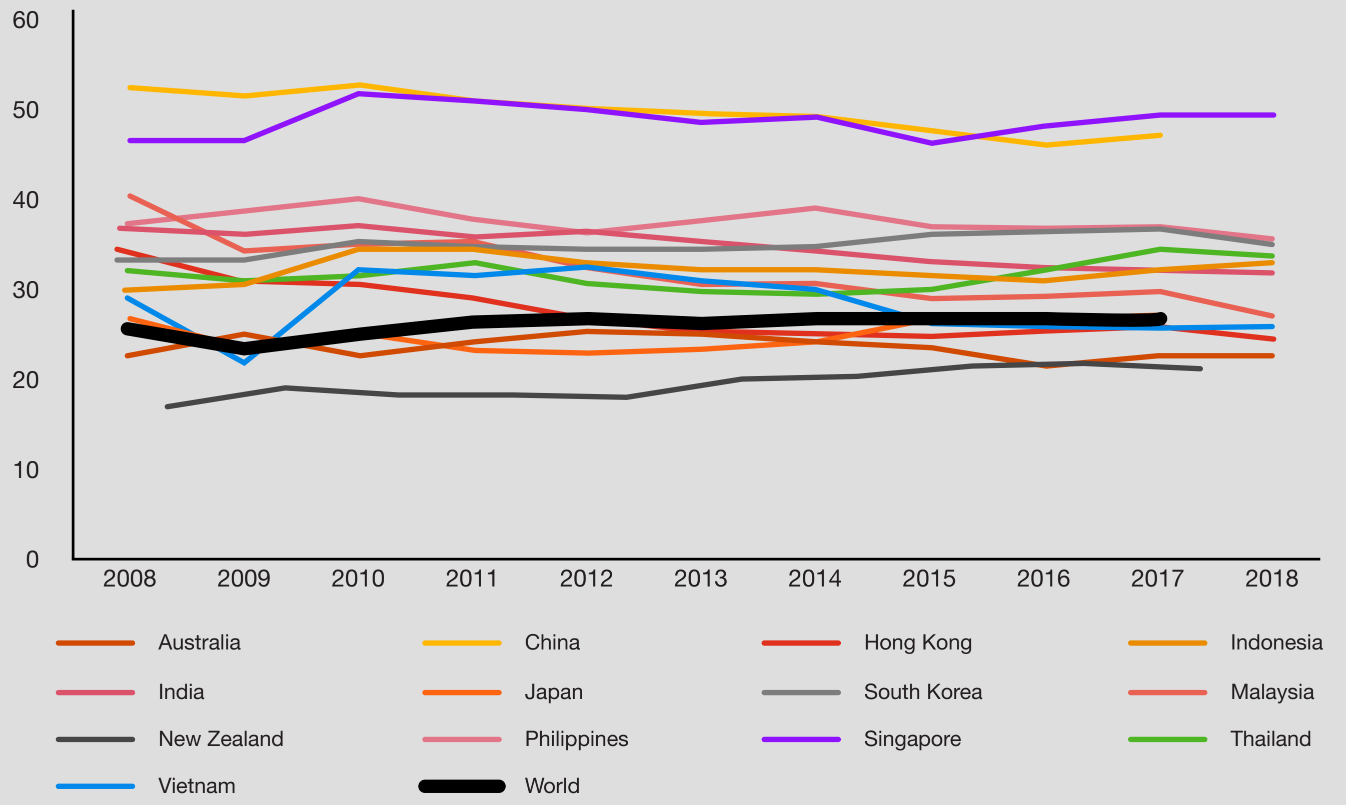
Sources: PwC analysis. Past data based on OECD, World Bank, FSB, Credit Suisse, SWF Institute

Bank Deposits in Asia Pacific (USD tn)

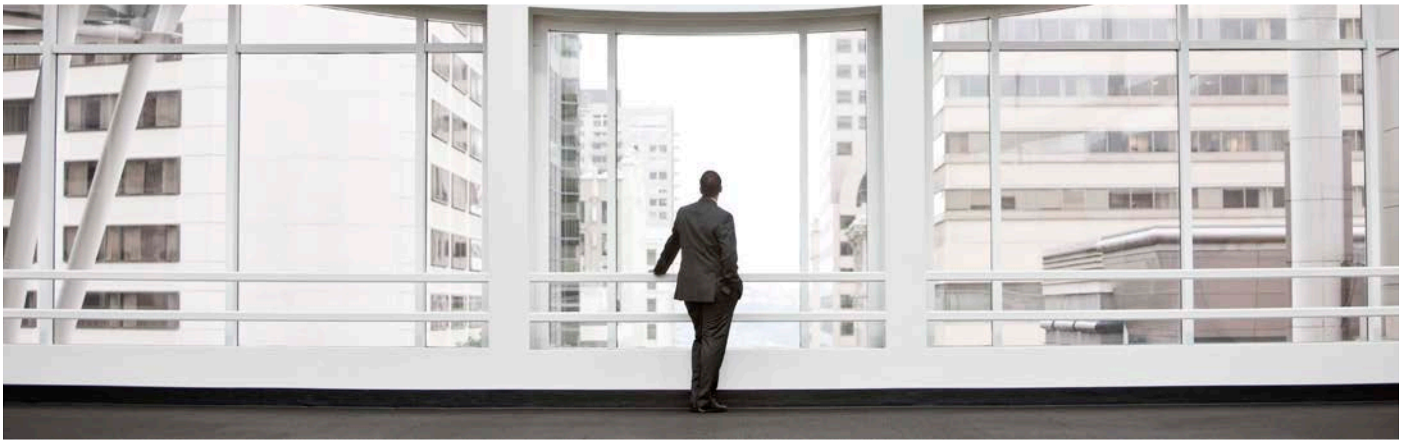


Sources: S&P Global Market Intelligence, PwC analysis

Saving as a % of Gross National Income



Sources: World Bank, PwC analysis



As a more general indication of rising investible assets across the region, bank deposits in APAC have experienced a 5-year CAGR of 4.6% from USD 34.7 trillion in 2013, to USD 43.4 trillion in 2018, with emerging markets, such as the Philippines and Vietnam, experiencing the fastest growth. Savings as a percentage of gross national savings of most Asian economies has been higher than the world average in the past decade. This represents a growing opportunity for asset managers to target individual investors by providing greater value on the investable assets they have on hand. The trend is expected to extend further down the road, as forecasted in PwC's Asset & Wealth Management 2025 – The Asian Awakening report, with assets of HNWI and mass affluent investors expected to grow from USD 39.3 trillion in 2017, to USD 65.5 trillion in 2025.

Indonesia is a country increasingly on the radars of asset and wealth managers. By 2025, it is forecast to have the highest GDP among Southeast Asian economies growing at a CAGR of 7.5% between 2015-2025, though its vast population will drag its GDP per-capita to the middle of the pack. Such wealth at an individual and national level is likely to filter into investments and financial products, particularly if digital distribution penetration continues to increase among Indonesia's young and digitally-savvy population.

With market volatility potentially retreating as we reach the end of 2019, investors would be seeking higher returns and asset managers would stand to gain from this shift. Mass-affluent investors are motivated as much by protecting their accumulated wealth as they are in growing existing and acquiring new assets. As such, both asset and wealth managers must continue to pay greater attention to client servicing for not only HNWI and UHNWIs, but also for mass affluent investors.

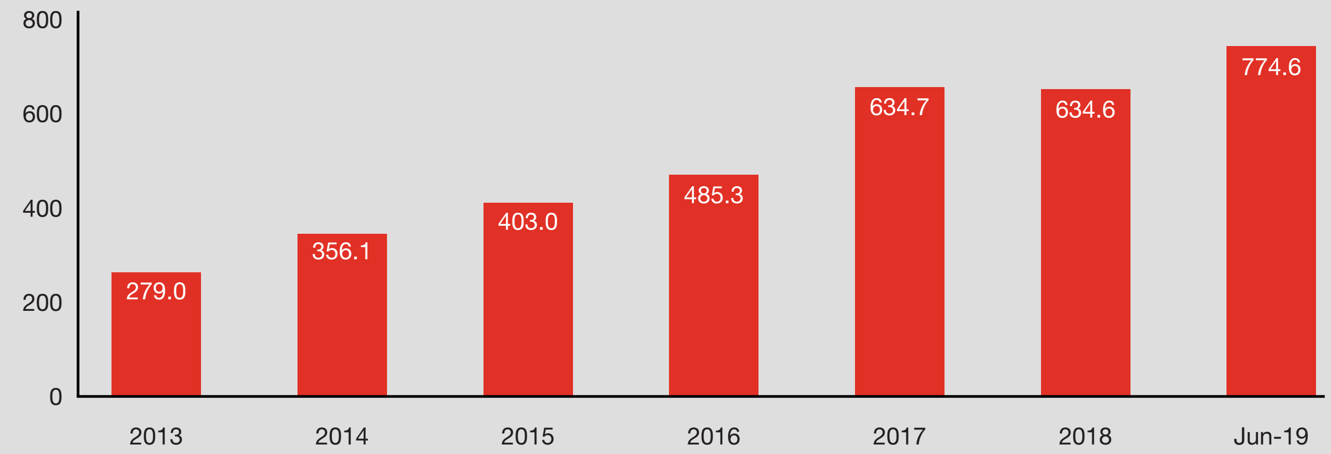
Trend 2: Rising ETF Assets

As projected in our publication Asset & Wealth Management 2025: The Asian Awakening, passive investments are expected to surge in coming years across the region and 2019 saw ETF AUM do just this with Australia, Japan, South Korea, and Taiwan leading among markets.

The region has also seen asset managers launch innovative ETF products and strategies such as inverse and leveraged ETFs, thematic ETFs, and strategic beta/smart beta ETF products.

In smart beta and factor investing in particular, APAC managers have been developing their capabilities, with smart beta ETF AUM tripping since 2013. Its growing popularity is likely due to the lower management costs, greater transparency of holdings and performance of these funds.

Strategic Beta ETFs AuM (USD bn)



Sources: Morningstar, PwC Analysis

Though passive strategies increasingly complement active, they constitute a relatively small proportion of retail investors' overall portfolio allocation. In India, for example, despite a 36.5% increase in ETF AUM over 1Q19-3Q19, growth was primarily driven by the Employees' Provident Fund Organisation with limited participation from retail investors, except for some sophisticated or HNWIs. ETF assets are also being used by the government to meet its disinvestment targets. According to reports, the government launched the sixth tranche of Central Public Sector Enterprises ("CPSE") ETF in July 2019 to raise over $5.8 billion. Earlier this year, a local asset manager had won the government bid and received a mandate to launch India's first bond ETF which will invest in CPSEs.

Elsewhere in the region, ETF connect platforms and greater access to cross-listed ETFs for investors have aided their growth. In June 2019, the Japan-China ETF Connectivity scheme was launched with the listing of eight ETFs - four in each market. The scheme enables an asset manager to link an ETF on its home exchange to an ETF on the other exchange, giving access to local securities in accordance with relevant quotas. June also witnessed the launch of the first Indian ETF in Australia by an Australian firm in partnership with a local Indian asset manager. The Korea Exchange is planning to allow domestic retail investors to trade foreign ETFs by working with asset managers to develop 'ETFs of ETFs' that provide overseas exposure. In Vietnam, AUM for locally domiciled ETFs has swollen over 2019, encouraging a domestic asset manager to consider launching the country's third locally domiciled ETF.

These developments point to strong future ETF growth in Asia, even as unconstrained bond and multi-asset strategies remain popular with investors.

Trend 3: Multi-asset solutions in volatile environment

Faith in solutions and multi-asset approaches continues to be strong across the region. With increasing need for diversification and customisation, wealth managers are turning towards establishing and expanding their multi-asset solutions businesses across APAC.

These investment products are geared towards investor goals such as retirement, education, etc. to aid in wealth creation. Some of these strategies are focussed towards improving clients' investing journey and experience by better aligning their interests with investment goals instead of focusing purely on returns. Using discretionary mandates, the product can be for both mass affluent and HNWI clientele providing them with greater flexibility in their financial planning. Within multi-asset solutions, quant solutions are also witnessing nascent interest. This refers to customised or model portfolios constructed using a variety of asset classes and involving quantitative strategies such as artificial intelligence and algorithmic approaches in order to meet clients' investment objectives.

In Singapore and Hong Kong, global managers are expanding their existing multi-asset teams and appointing new heads to lead this sub-division to focus their energies towards this product and extend multi-asset solutions services to their clients. Commencing April 2019, the Indian asset management association publishes data on "Retirement fund" and "Children fund" related solutions strategies on a monthly basis. This underscores the growing area of opportunity in this segment in the country. The AUM and number of folios for these 30 existing solutions funds in India have grown by 3.3% and 2% in the short 6-month span between Q2 and Q3 this year.

Trend 4: Income theme prevails

Fixed income has traditionally catered to investors with lower risk appetites looking to gain regular income. However, apart from traditional fixed income, both global and local APAC asset managers have been exploring other avenues to generate consistent income in a low yield and volatile environment. APAC witnessed a multitudinous flurry of income-themed multi-asset funds and retirement income fund launches over the past two-three years given investors' need for regular dividend payouts. Income investing has long been a core strategy for investors seeking total return with an emphasis on income and capital preservation. Both global and local asset managers have been trying out innovative strategies with income as the central theme and some have even rebranded their existing funds to emphasise on the income paying feature of their funds.

In Hong Kong and Singapore, income funds of various types witnessed healthy net flows during the first half of 2019. As such, distributors are clearing shelf space to accommodate more income products given retail investor demand. Distributors see regular and steady income payments, capital protection, and low volatility as vital elements to retail investors. Many newer robo-advisory platforms, which carry mostly passive or ETF products, are also diverting attention towards income-focused ETF portfolios, furthering the view that income-related strategies will continue to gain traction in 2020.

Trend 5: Retirement products and pension and target-date funds

The trend of ageing populations across Asia Pacific has begun to spread worry of an insufficiency in public pension systems. This has driven investors to turn towards private pension products and retirement solutions. Growth in such products is further aided by the volatile market conditions and low-interest rate environment.

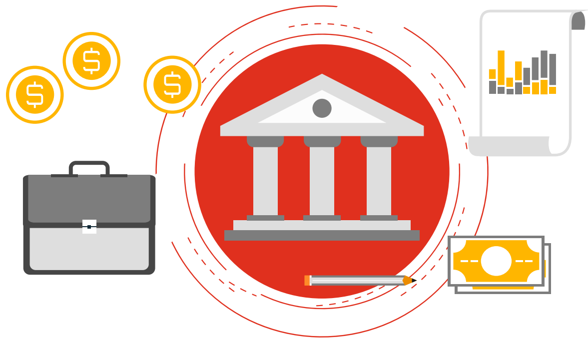
In Taiwan and Singapore, the Government has taken steps to aid investors in preparing for their retirement.
The Financial Supervisory Commission implemented the Enjoy Your Retirement (好享退) programme which introduced nine new low-cost target-date funds into the market through the Taiwanese Government-backed online fund distribution platform. Even in Singapore, where retirement planning is dominated by the Central Provident Fund, three retirement products were launched by the asset management subsidiary of Temasek Holdings. The launch of retirement products by a Government-backed asset manager could potentially influence other asset managers to enter the market with similar products.

Due to regulatory support implemented back in 2018, target-date funds have since experienced strong growth in South Korea and China. The Financial Services Commission in South Korea increased the equity allocation limit for target-date funds to 80%, allowing asset managers to generate greater returns. The China Securities Regulatory Commission allowed the launch of target-date funds, opening up the third pillar of retirement planning in China. Foreign firms have had some success in launching products in this field and their experience of managing defined contribution-style products could provide a key value proposition in China as the pension space is increasingly liberalised and open to foreign participants.

However, target-date funds may face difficulty in penetrating the Hong Kong fund market. In December 2018, the Securities and Futures Commission ("SFC") has revised regulations on mutual funds to maintain the use of derivatives and mortgage-backed securities below 50% of the fund's Net Asset Value ("NAV"). Derivatives and mortgage-backed securities are essential in constructing low-cost target-date funds and the revision would either limit formation of new funds, limit returns on existing funds, or both.

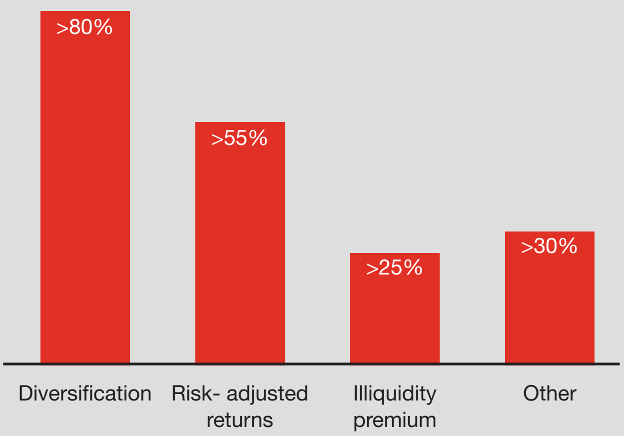
Trend 6: Shift to alternatives

Across Asia, there has been increased awareness of the lacklustre performance of many actively managed funds when benchmarked against index funds. The need for increased and sustainable long-term investment returns has propelled the alternative asset classes to centre stage. PwC's Alternative Asset Management 2020 report notes that alternative firms, with their emphasis on investment outcomes rather than products, and specialisation rather than commoditisation, will increasingly attract investors seeking customisation, diversification, and genuine long-term alpha.

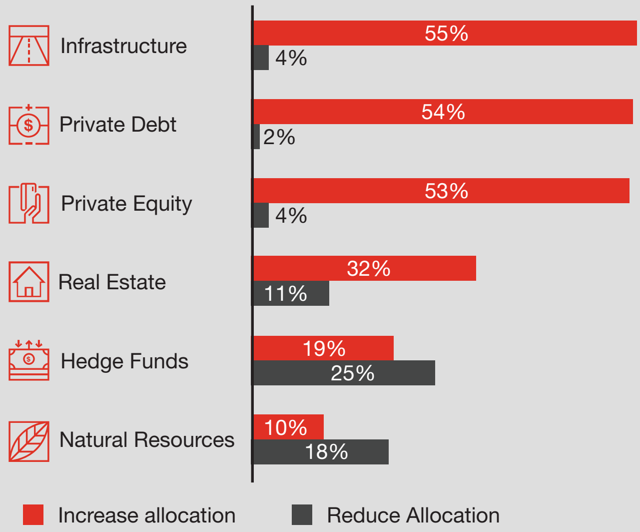


Diversification and returns are the main drivers to invest in alternatives

Reasons motivating pension funds to invest in alternative assets



Institutional investors' plans for alternative asset allocation



Source: Preqin, PwC Analysis

Traditional asset managers in APAC have also expanded their product range into the alternative space to remain competitive in the market. They are doing so by either increasing allocation within their existing funds, including multi-asset funds, launching alternatives-focused funds, or partnering with an alternative's specialist firm. Within alternatives, liquid alternatives strategies are gaining the attention of asset managers. Managers have also been keen on developing customised alternative solutions for high-net-worth investors in Singapore and other Southeast Asian fund markets.

In the Philippines, 2019 witnessed the opening of the REITS industry with the government agreeing to make amendments to the rules guiding REITS. The proposal includes easing public ownership requirements, requiring proceeds from a REIT offer to be reinvested in the country, adding oversight powers in related party transactions and imposing sanctions for administrative violations.

In June 2019, Thailand's Capital Market Supervisory Board relaxed rules allowing local retail funds to invest directly in qualified private equity funds. Previously, retail funds were only allowed to invest in private equity funds indirectly through a collective investment scheme.

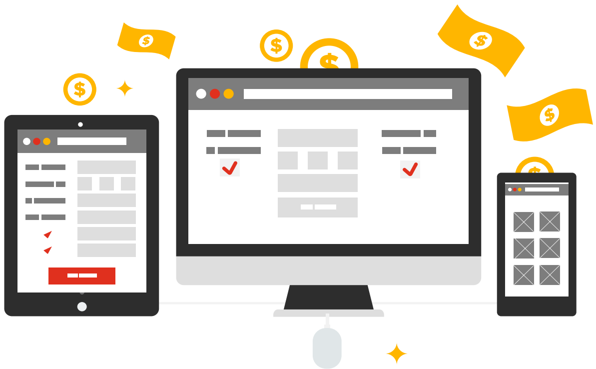
Following the re-categorisation of mutual fund schemes in India, asset managers have been exploring other avenues offering a greater scope of product innovation, compared to mutual funds. The SEBI eased investment norms for domestic alternative investment funds ("AIFs") operating in international financial services centre ("IFSC") in August 2019. The new platform for AIFs at IFSC allows private equity investors to launch funds at marginal cost. The dollar-based AIFs launched from IFSC will encourage domestic investors to make offshore investments. Thus, alternatives assets in India are set to rise rapidly and gain importance in investors' portfolio allocations.

In sync with global trends, Asian sovereign and public pension funds' inclination towards alternatives hasn't gone unnoticed. Korea's National Pension Service ("NPS") has been increasing its alternatives allocation over 2019 by adding multi asset and private debt strategies to the mix. Japan's Government Pension Investment Fund ("GPIF") has been seeking consultants to manage its alternatives portfolio comprising of private equity, infrastructure, and real estate. In order to provide better returns, Thailand's Government Pension Fund ("GPF") is looking to tweak its asset allocation to include a greater share of alternatives, corporate bonds, and absolute-return strategies. Over the past five years, the GPF has increased their alternatives allocation from 5%-15% and have set target allocations closer to 20%.

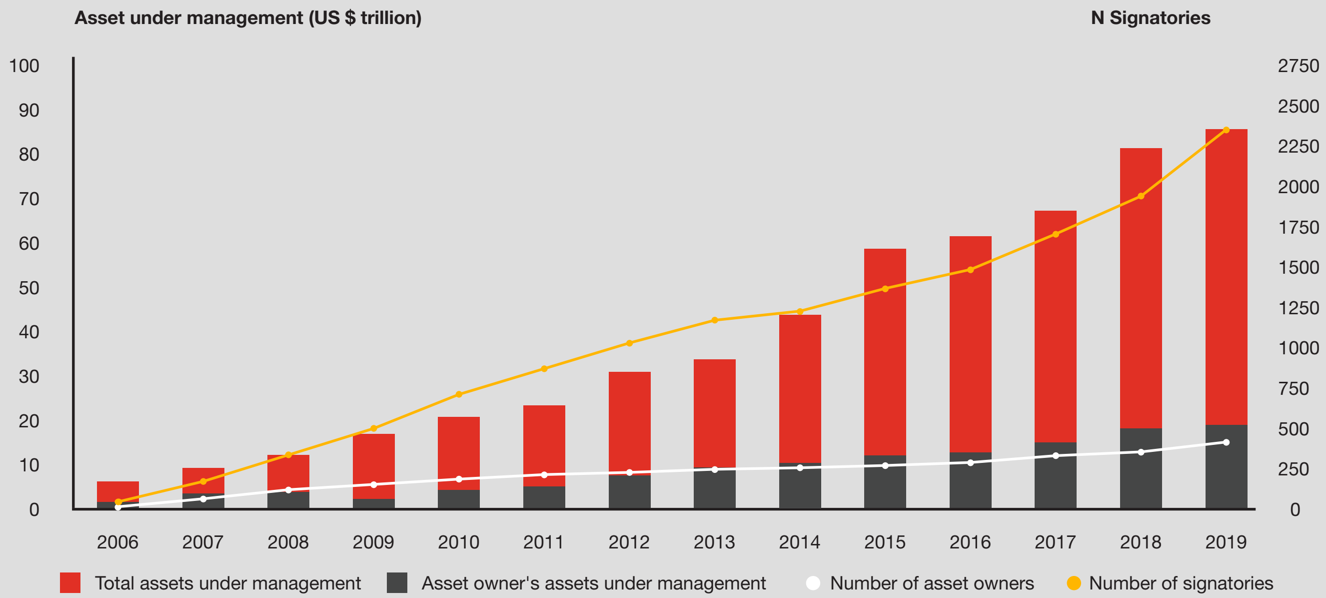
Trend 7: Sustainable investing

The focus on green financing in APAC not only stems from the vast potential it holds, but also from the fact that sustainable investments will gradually become the need of the hour as environmental and climate change concerns gain prominence in Asian economies.

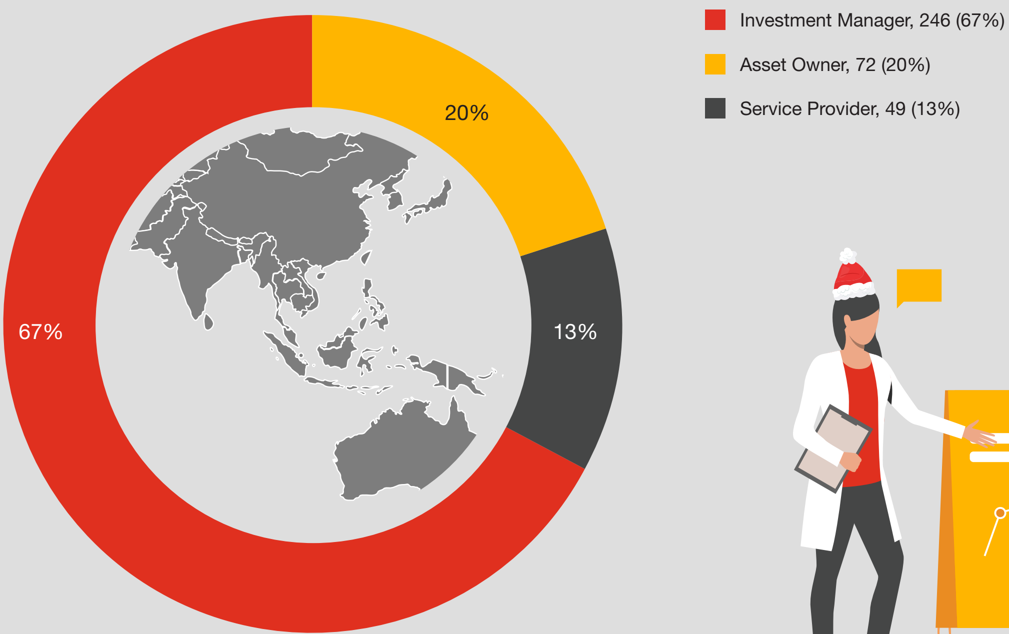
According to the Principles of Responsible Investing ("PRI") association, the total AUM of asset owners that have signed the PRI framework reached USD 20.1 trillion in March 2019. The number of signatories by asset owners has increased from 373 to 432, representing a growth rate of 16%, the highest since 2010, signalling a continued strong interest in environmental, social, and governance ("ESG") investments.



Global PRI Signatory Growth



APAC PRI Signatories by Institution Type[2]



[2]Data includes Australasia, China, Japan and Rest of Asia

Investments into ESG funds has accelerated their pace of growth, primarily driven by institutional investors. GPIF, the world's largest pension fund, has announced its interest in investing in ESG focused green bonds from 2020 as it works to find an appropriate green bond index through its new index posting system. Korea's NPS adopted the stewardship code in 2018 to encourage institutional investors to actively participate in corporate governance through voting rights in the interests of their beneficiaries. The NPS has also established the ESG evaluation model based on 52 indexes, which include climate change, human resource management, workplace safety, and shareholders' rights. Other pension funds could potentially follow suit.

Regulators such as Hong Kong's SFC have played a key role in the ESG push in Asia. In April 2019, the SFC provide guidance to management companies of SFC-authorised unit trusts and mutual funds on enhanced disclosures for SFC-authorised green or ESG funds.

Singapore's Monetary Authority of Singapore ("MAS") is engaging financial institutions to consider ESG criteria in decision making processes. MAS supports the adoption of industry standards and guidelines associated with sustainable finance, encourages industry-led capacity building efforts and supports the development of green bond market in Singapore. For instance, MAS' Sustainable Bond Grant Scheme encourages the issuance of green, social and sustainability bonds in Singapore and is open to first-time and repeat issuers.

China too has sought to put green and sustainable finance into a more prominent position, with the 13th five-year plan making numerous references to green and sustainable developments in the economy and wider society. This is filtering through to the financial sector and China is an increasingly dominant player in the issuance of green bonds, being the world's second largest issuer in 2018 with USD 31.2bn, and raising USD 45.9bn by 3Q19 according to Climate Bonds Initiative.

Supportive regulatory environment is key for the proliferation of responsible investments

Country	Government imposed corporate RI disclosure		Non-government (industry body) imposed corporate RI disclosure	Conduciveness of stock exchange for the promotion of RI factors	Pension fund RI Regulation	Stewardship code
	Single Factor (E,S, or G)	Comprehensive (ESG)				
Australia	Yes	Yes	High	Moderate	High	Moderate
China	Yes	Yes	Moderate	High	Low	Low
Hong Kong	No	No	Moderate	High	Low	Moderate
India	No	Yes	Low	High	Low	Low
Indonesia	No	Yes	Moderate	Low	Low	Low
Japan	Yes	No	Moderate	Moderate	Low	Moderate
Malaysia	No	Yes	Low	High	Low	Moderate
Philippines	No	Yes	Moderate	Low	Low	Low
Singapore	No	Yes	Moderate	High	Low	Moderate
South Korea	Yes	No	Low	Low	Moderate	Moderate
Thailand	No	Yes	Moderate	High	Low	Low
Vietnam	No	Yes	Moderate	Moderate	Low	Low

Source: PwC analysis

Fund markets such as Australia and Japan have proven to be front-runners both in terms of number of ESG fund lunches and their AUMs. India launched it's first "ESG-labelled" fund in 2019 and Indonesia became the first country in the world to sell a sovereign green sukuk bond. A Jakarta-based third-party online mutual fund platform has also rolled out a shariah-compliant mutual fund platform intended to help customers achieve their short and long-term financial goals.

Though over the past two years, there has been an increase in awareness for ESG investing and a surge in funds focusing on SRI, sustainable investments, impact investing and green financing, there has been little clarity on the exact definitions of these terms. Moreover, data availability both in terms of evaluating securities based on ESG factors as well identifying the right benchmark for ESG funds has been challenging. Despite this, 2019 has witnessed distributors being increasingly interested in carrying ESG funds given initial investor interest. However, there is still a long way to go before retail investors shed their inhibitions regarding sacrificing returns due to investing in a fund geared towards a good cause.

Trend 8: Fund fee wars: fee pressures and fund rationalisation

In Asia, fee margins are getting compressed with asset managers facing downward fee pressure on all fronts. Investments in digitalisation and rising compliance costs have pushed up the cost base of asset managers, while changing investor expectations and regulatory changes are driving down fee revenues. Caught between a rock and a hard place, asset managers have to adapt to a new reality of falling margins.

Asset managers are not sitting idle while watching robo-advisors and passive funds move into the market. In response to complaints about high fees, some global asset managers have launched 'zero-fee funds' in a bid to enter the 'fund fee war'. Local managers are also not shying away from responding to fee pressures, with a Singaporean asset manager introducing the 'All Season funds' with a Total Expense Ratio ("TER") cap of 0.5%, a lower TER than traditional mutual funds. While this is a valiant attempt at stemming the bleed from active funds, this has also resulted in further margin compression for asset managers and renegotiation of fees between managers and distributors.

Regulators in Asia are also moving more actively to shield investors from high fees, with a focus on distribution fees. Some examples include:

- **India** – a ban on upfront commissions has resulted in a pressure on trailer fees. A TER cap has also pushed down management fees.
- **Taiwan** – a ban on marketing commissions has resulted in an increase in trailer fees, reducing the overall fees collected by asset managers. Proliferation of B-shares, or funds with a back-end load, has also resulted in increased pressure on asset managers. B-shares work by having asset managers to pay an upfront lump sum "distribution service fee" of around 2%-3%, with asset managers charging a back-end load to investors when they exit the investments. To incentivise investors to stay invested, some B-share funds automatically convert to a front-end structure after a few years.

Country:

Taiwan

Background:

The distribution landscape in Taiwan is dominated by retail banks. These banks often charge marketing commissions in addition to the usual front-end sales fees and trailer fees. This resulted in a situation where fund churning is common to maximise commissions earned.

Before:

There are two parts to marketing commissions: Initial fixed fees, with an initial fee of USD 10,000 to USD 20,000 to participate, as well as a commission of 10 to 35 basis points based on gross sales volume of a fund during the promotional period.

After:

Marketing commissions paid to distributors during marketing campaigns were banned by the Taiwan FSC.

However, this has led to an increase in trailer fees, with distributors renegotiating higher trailer fees to compensate for the loss in marketing commissions. While reducing churn, this new ban may result in less fees collected by asset managers, at least in the short to medium term. In fact, there are reports that distributors are on average now asking for a 50% to 100% increase in trailer fees.

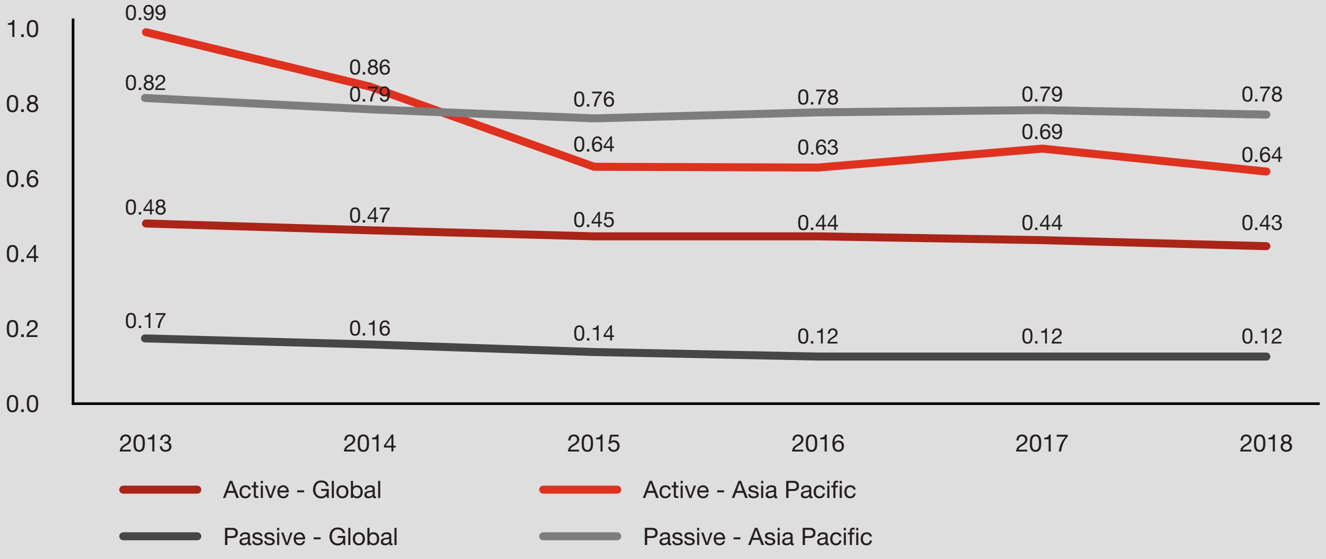
The only upside for asset managers is that there will be less churn, whereby marketing incentives paid by them do not result in stable AUM.

Asset managers can adopt a two-pronged approach to reduce the pressure on margins -

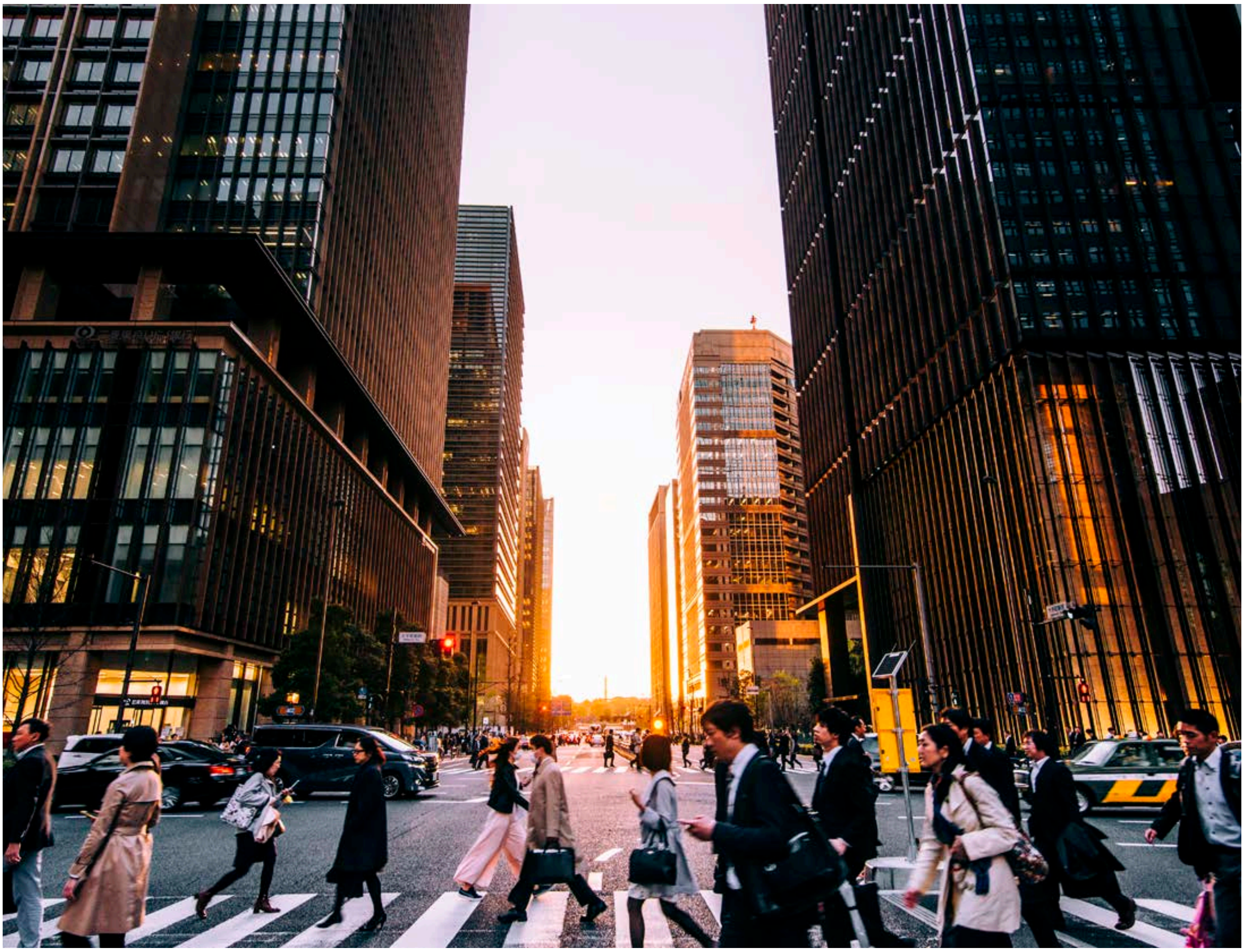
- Rationalise fund offerings to optimise cost structures and distribution; and
- Increase revenue by introducing novel funds that may be attractive to investors and justify higher fees.

It is likely both strategies will be tested by asset and wealth managers. As shown earlier, the rise of thematic and novel funds is well underway in APAC and as the types of products offered increases, asset managers may shutter funds with weak performance in order to consolidate AUM in higher-performing funds.

Evolution of mutual fund management fees by type (%), 2013 - 2018



Sources: Lipper, PwC analysis



Trend 9: Opening fund markets to foreign funds, asset managers and investors

2019 was a year where significant progress was made in developing Asia Pacific's asset management industry into an open market. The most notable events would be the launch of the Asian Region Fund Passport ("ARFP") and the enactment of the Singapore Variable Capital Company ("VCC"). Although no funds have been launched on either program as of 2019, this has potentially set the ground for growth in Asia Pacific in 2020[3].

Various countries in Asia Pacific have also made their own individual approach towards increasing market access. Hong Kong signed two additional Mutual Recognition of Funds ("MRF") agreements, with Luxembourg and the Netherlands, in 2019, bringing the total number of Hong Kong MRFs to six. Hong Kong also launched its Open-ended Fund Company structure which has seen two product launches at the time of publication. The Financial Supervisory Commission in Taiwan has agreed to allow licensed banks and brokers to issue trust vehicles that can raise funds from HNWI for investments in offshore private placement funds, bypassing the need for a master agent. Thailand has introduced a new category of qualified investors (those with assets between THB 50 million and THB 100 million) that can invest up to USD 1 million per year. Before this introduction, only investors with assets exceeding THB 100 million (~USD 3.3 million) were considered as qualified investors.

Developments in China continued apace over 2019, with foreign firms in both the private and public fund space making progress through increased product launches and taking increased or majority stakes in their joint-ventures. Looking ahead to 2020, the following initiatives may spur further interest and increased market access for foreign asset and wealth managers in the middle kingdom:

- Removal of Foreign Ownership Cap

  Currently, to issue a public fund in this massive market, global asset managers have to partner up with local partners via joint ventures under a foreign ownership cap of 51%. This cap was initially slated to be increased to 100% in 2021. In July 2019, China announced that it would bring forward the removal of foreign ownership cap to 2020. This could lead to an influx of global asset managers setting up their own wholly owned public fund company. However, these global managers could face a challenge in satisfying all necessary regulatory requirements and differentiating itself from domestic and other new foreign competitors.

- Abolishment of QFII and RQFII

  Apart from increasing market access into the fund market, China has placed the proposal on the abolishment of the Qualified Foreign Institutional Investor ("QFII") and Renminbi Qualified Foreign Institutional Investor ("RQFII") cross-border investment progrrames under consideration. The abolishment of quotas for these schemes could bring about an increase in cross-border trading but the regulator is yet to provide a schedule or timeline as to when this proposed change would take effect.

- China-Hong Kong Wealth Management Connect

  Following the successful connect systems linking capital markets across Shenzhen, Shanghai, and Hong Kong, regulators have expressed a desire to discuss the possibility of launching a wealth management connect scheme. The China-Hong Kong Wealth Management Connect Scheme would potentially allow residents in China and Hong Kong to invest in wealth management products of the other country through the banking system.

[3] To read more refer to Monthly research digest issue 6

Trend 10: Entry and Exits

APAC's wealth-management business could witness a surge in M&A activity on robust regional growth, with Asia poised to overtake North America as the world's wealthiest region in the next few years. Private banks and wealth managers may scurry to acquire AUM, driven by the region's emerging global lead in wealth creation and its booming wealth-management business. Acquisitions may be fuelled by the pursuit of specific customer segments, products, or capabilities, especially in the digital space. Scale efficiencies are likely to accelerate interest in acquisitions as technology innovation gains momentum.

For instance, India and Indonesia are among the fastest-growing emerging markets, in terms of GDP, thanks to regulatory support for the industries and greater investor awareness and education levels. Strong growth potential exists in Indonesia's asset management industry, driven by the country's economic development, increasing affluence, expanding middle class, and rising demand from individuals and institutions for investment solutions.

As stated above regarding China, the lifting of foreign ownership restrictions could see a flurry of foreign asset managers looking to snap-up lesser public fund management companies from their Chinese shareholders. Additionally, foreign firms in existing joint-ventures, where the domestic partner(s) do not wish to sell a controlling stake, may look for domestic or foreign partners to offload their stake so that they may pursue their ambitions of majority or full control with a different venture.

Singapore	Acquisition: 2	**Thailand**	Acquisition: 1
India	Acquisition: 1 Joint Venture: 1	**Philippines**	Entrant: 1
Indonesia	Acquisition: 1	**Japan**	Joint Venture: 1
Malaysia	Potential Acquisition: 1	**Taiwan**	Exit: 1
Vietnam	Ongoing Acquisition: 1 Entrant: 1	**Australia**	Acquisition: 1 Entrant: 1 Exit: 1

*Note: List is not exhaustive

Trend 11: Snapshot of other developments pertaining to mutual fund regulations

Regulations have played a key role in shaping the overall trend of the asset management industries across APAC. As the regulator tries to implement best practices and guidelines, while still allowing room for innovation, a volatile environment is equally challenging for the regulator as it would be for a manager, distributor, or an investor. Achieving the 'golden cross' of often conflicting interests among different financial groups, while simultaneously supporting an environment of AWM growth and market penetration, will be key. Here's a quick glance of a few regulatory developments in the AWM space in APAC fund markets -

Country	Category	Date	Details
Australia	Investment	Jul - 19	Australia Securities Investments Commission (ASIC) requested for the exchange operator to halt the admission of any managed funds that do not provide daily portfolio holdings disclosure or have internal market makers as it undertakes a review of its laws and regulations.
India	Digital	Nov - 19	Securities and Exchange Board of India ("SEBI") re-introduced "Aadhar" based e-KYC for mutual fund investors. This move is expected to ease investor on-boarding process for mutual fund distributors and encourage first-time investors to come-forth and participate in mutual fund investments.
	Investments	Nov - 19	Minimum investment limit for portfolio management services ("PMS") doubled to INR 5 million (~US$69,700).
	Investments	Nov - 19	SEBI extended the December 2018 circular creation of a segregated portfolio of debt or money market instruments by mutual fund schemes to safeguard investors' interest in case of credit events and to better manage liquidity risk. The new circular extends to include unrated debt or money market instruments by mutual fund schemes in accordance with regulators' guidelines.
	Investments	Sep - 19	Risk management framework for liquid and overnight funds augmented to include the requirement of liquid funds to hold at least 20% of its net assets in liquid assets such as cash, government securities, T-bills and repo on government securities.
	Distribution	Apr - 19	SEBI proposed a first-level regulator or self-regulatory organization ("SRO") to have an oversight on mutual fund distributors and registered investment advisors
	Digital	Jan - 19	To improve operational risk management and data protection, mutual fund companies would be required to implement a cyber security and cyber resilience framework. Market participants using AI- or machine learning-based application or system will be subject to quarterly reporting following SEBI guidelines.
South Korea	Investment	Oct - 19	The Financial Service Commission reduced the minimum investment required for private equity fund of funds to USD 10 for retail investors.
	Investment & Digital	Apr - 19	The Financial Service Commission has revised regulations to allow robo-advisors to manage funds as long as it abides by the investment objective and implements a security breach prevention system.
Taiwan	Investment	Oct - 19	Extension of cap on holdings by single investors to all local ETFs
	Distribution	Jun - 19	Prohibit asset managers from using average credit rating to market funds to investor
Thailand	Investment	May - 19	The Capital Market Supervisory Board allowed local retail funds to invest directly in qualified private equity funds. Previously, retail funds were only allowed to invest in a private equity fund indirectly through a collective investment scheme.

Note: List is not exhaustive

Regulators have aimed to increase transparency of mutual fund markets across APAC by increasing the reporting requirements and taking other initiatives to drive down market risks. For instance, following the turmoil in Indian debt markets in 2018, the regulator promptly introduced a long list of measures in 2019 to improve risk management and self-regulation, create segregated portfolios for riskier investments, and increase of minimum investment amounts for certain fund types. Regulators in Thailand and Taiwan are also providing greater opportunities to local retail investors. Going forth, maintaining a delicate balance between bolstering fund market growth and providing expansion opportunities, providing a safe haven for experimentation, encouraging cross-border initiatives, and curtailing both operational and market risks will continue to be integral for APAC fund regulators and policy makers.

Trend 12: Digital Distribution

Issue 5 of our market research digest explored the digital ecosystems that contribute to the growth and development of digital distribution in Asian fund markets. By scanning the FinTech landscape, the issue attempted to identify which Asian economies are best placed for digital adoption in the AWM space and how industry players can potentially exploit the opportunities arising from the same.

Across APAC, China and India are currently riding the digital wave when it comes to fund distribution. China's online fund distribution is dominated by large platforms backed by technology giants who lead not only in terms of scale and investor base, but also in terms of product suites, services, and ease of access. 'Retail payments' is the operational theme for the first round of experiments under the Reserve Bank of India's regulatory sandbox 2019, emphasising the seriousness of the country's migration to digital payment modes.

As such, uptake of digital fund distribution has been variegated across Asian markets. Two key trends to be highlighted include robo-advisory and virtual banking.

Our issue of 2018 in review had anticipated consolidation in the crowded B2C robo-advisory segment and proliferation of B2B robos over the next few years across APAC. The verity in the analysis proved its worth as 2019 progressed. For instance, India and Indonesia witnessed an increase in B2C robos, including standalones and those diversifying businesses from payment to online fund distribution. However, there were also acquisitions witnessed in this space by the metaphorical 'big fish' in the market who, comparatively, had better product diversification and greater market share.

In Singapore, for example, sentiments on B2B robo-advisors appeared to be much more positive. Here, B2B robo-advisors generally operate with greater flexibility – they have the ability to collaborate with local financial institutions and technology companies globally and provide white-labelled solutions to asset and wealth managers who lack in-house capabilities.

Virtual banks are viewed as a potential future distribution avenue for asset management companies in the region, and as a catalyst for greater digitalisation in the wider funds industry. Hong Kong is beginning to lay the groundwork for striking distribution partnerships with new virtual banks that have been granted licences in the territory this year. The Hong Kong Monetary Authority granted its first virtual banking licences in March 2019, and there have been a total of eight such licence recipients in the city so far. The Financial Supervisory Commission in Taiwan granted its first digital banking licences in 2019. Virtual banking will initially be about cash and savings accounts, but asset managers are already thinking about the next steps, which will be to start bringing in wealth management and asset management services.

In contrast to virtual banking, securities brokerages dominate the Indonesian fund distribution landscape, with brokerages typically offering a wide variety of funds from a large number of asset managers. As opposed to banks, which typically offer a smaller number of funds from a select number of established asset managers. The increasing presence of digital platforms could bring more competition to the distribution landscape. By offering a wide variety of funds, low minimum investment amount and an easy-to-use interface, individuals new to financial investments could be easily drawn in.

Some developments in the FinTech and digitalisation space related to AWM in APAC over 2019 include -

India

- Reintroduced e-KYC
- Asset managers launched AI-powered chatbots
- SEBI allowed investors to buy mutual funds using digital wallets while banks and other financial institution selling funds via Facebook messenger, WhatsApp and Telegram
- Asset managers are required to implement a cyber security and cyber resilience framework for improved operational risk management and data protection

Taiwan

- Granted 4 digital banking licences
- Regulatory Sandbox launched with 6 approved applications
- Low interest in digital distribution due to high fund churning and low fee transparency
- Government driven online fund platform such as FundRich Securities have not gained much traction

South Korea

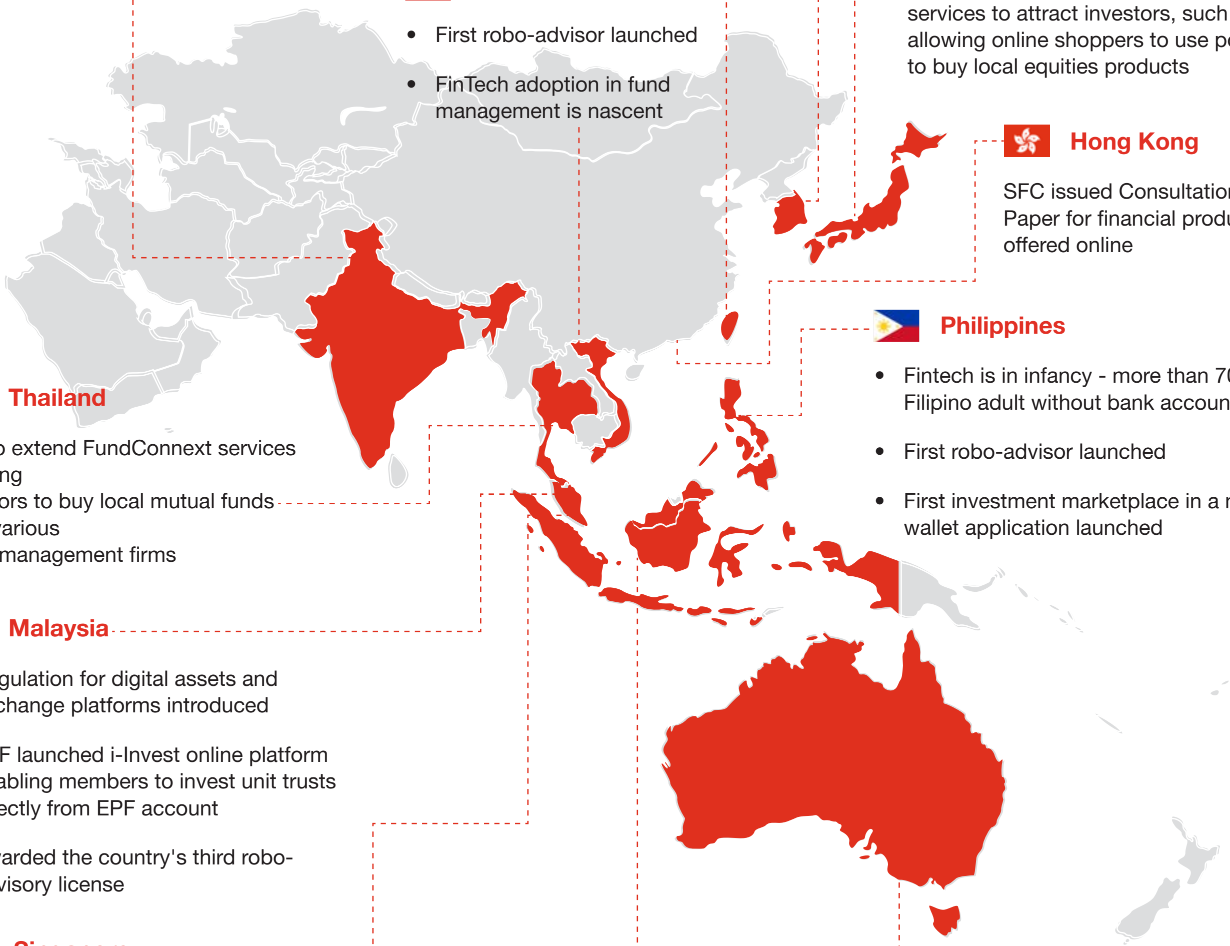
- Fund Online Korea, an online platform connecting investors and Independent Financial Advisors
- FSC Initiatives to allow AI-driven investments to have greater business scope
- Regulatory support encouraged industry players to build dedicated online investment platforms

Japan

- Mutual fund investing via digital channel, by introducing gamification and trading in small lot sizes
- Online brokerages are diversifying services to attract investors, such as allowing online shoppers to use points to buy local equities products

Vietnam

- First robo-advisor launched
- FinTech adoption in fund management is nascent



Hong Kong

SFC issued Consultation Paper for financial products offered online

Philippines

- Fintech is in infancy - more than 70% of Filipino adult without bank accounts
- First robo-advisor launched
- First investment marketplace in a mobile wallet application launched

Thailand

SET to extend FundConnext services enabling
investors to buy local mutual funds from various
asset management firms

Malaysia

- Regulation for digital assets and exchange platforms introduced
- EPF launched i-Invest online platform enabling members to invest unit trusts directly from EPF account
- Awarded the country's third robo-advisory license

Singapore

- Re-introduced centralized e-KYC
- Sandbox express launched
- Issuance of 5 virtual banking license to non-bank players by 2019
- Veritas - a framework for financial institutions to promote the responsible adoption of AI and data analytics introduced
- Robo-advisors drifting towards B2B models amid B2C shakeout
- Innovative platforms emerge - Singapore based FinTech BondEvalue to launch blockchain-based bond exchange

Indonesia

- E-money transactions increased to USD 3.9 bn in June 2019 from USD 238 mn in 2013.
- Online platforms driving retail participation - B2C platform Bareksa rolled out a shariah-compliant mutual fund platform
- E-wallets (Ovo, Bulapak, Tokopedia, GoPay) trying to venture into mutual fund distribution by partnering with tech giants

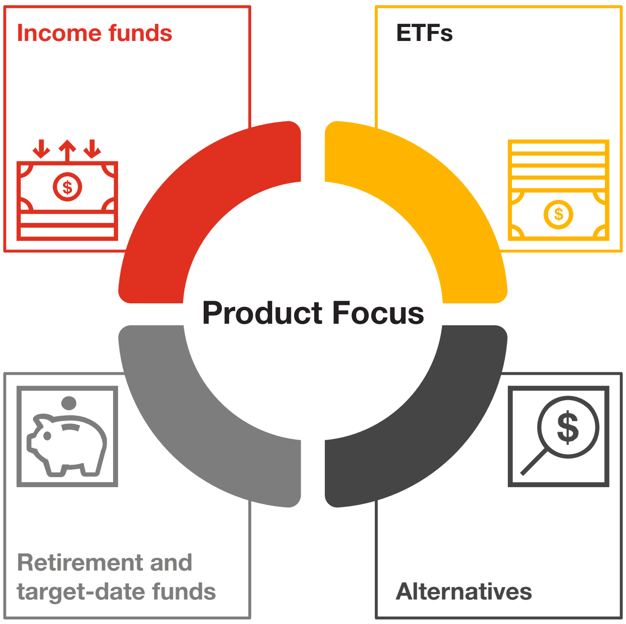
Australia

Integrating distributed ledger technology to create new types of assets to invest in, such as cryptocurrencies and tokenisation

Conclusion: Asian fund markets are a hotbed of opportunities

The opportunities found across APAC are as varied and diverse as the languages, peoples, cultures, and nations which comprise the region. From mature fund centres to emerging economies, large institutional investor bases to the prospect of tapping into millions of retail investors and active-centric investors to those wanting passive products, the region provides a near inexhaustible demand for those willing to seize the opportunities.

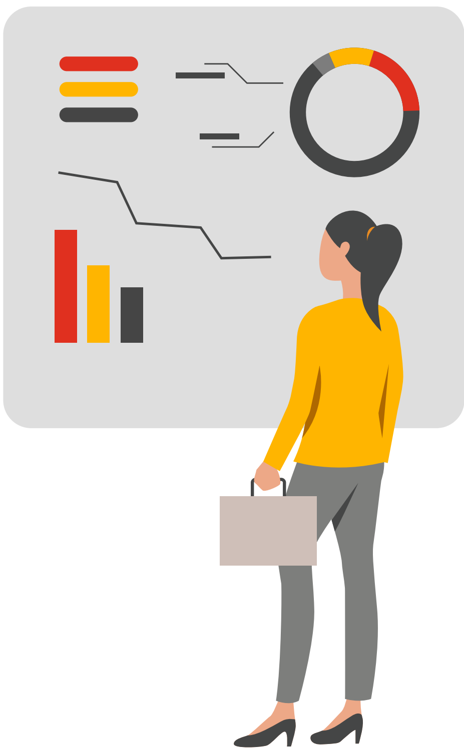
The growing wealth of the region is reflected at the HNWI end of the scale, particularly in China. Mass retail investors, on the other hand, experiencing increased incomes will see potential investment pools increase across the board. These investment pools have the opportunity to find themselves deployed across a range of products with an increase in demand within the region. This includes income-themed products to beat the low-yield environment, multi-asset solutions to mitigate against volatility, target-date pension funds to ensure adequate savings for a comfortable retirement, alternatives to chase higher returns, ETFs for lower fees and index-tracking, or environmentally-focused products to spur sustainable and green financing. Whether local, regional, or international, asset managers are finding their products increasingly in demand, while simultaneously balancing these opportunities against changes sweeping the industry.



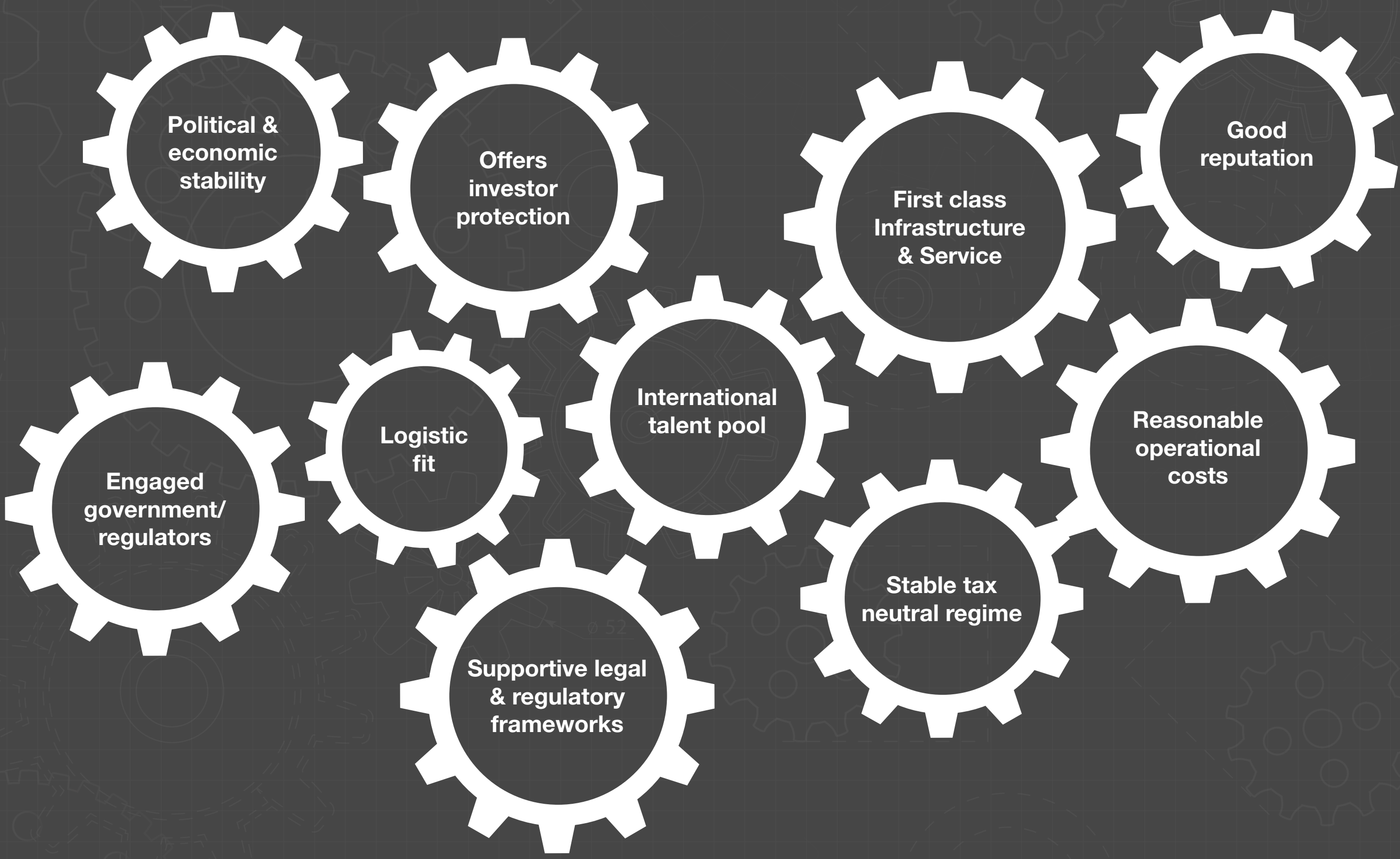
Despite increasing product demand, managers are finding investors increasingly unwilling to pay active fees for passive returns or any returns without sufficient alpha. Challenges in product distribution is also growing with digital distribution emerging as a potentially dominant channel in mature and emerging economies alike and enabling greater disintermediation of investing across the region. Whilst banks continue their distribution dominance in some markets, other markets are poised to leapfrog these legacy channels and have digital distribution as the main channel for product selection, especially among mass-retail investors.

Asset managers are also assisted in reaching their APAC objectives by market and regulatory developments. Numerous regulators across the region have taken steps to increase market access to foreign firms, broaden the pool of investors, ease investor restrictions on investing in offshore products, remove ownership limits, and countless other initiatives to promote the growth and development of asset and wealth management across APAC. The general theme of these initiatives tends to lend themselves to greater market access, with far greater instances of market entry, through acquisition, joint-venture or direct entry, being chalked-up across the region against fewer market exits.

Thus, whilst there is still ample volatility and uncertainties in markets to make traders and brokers jitter, the trends witnessed in APAC across 2019 should give asset and wealth managers a sufficient boost to see these ambivalence in good cheer as they ring in the new year.



Platform considerations in Asian fund markets include...



Institutional investors are looking for external asset managers

Country	Shift towards foreign markets	Shift towards alternatives	Shift towards outsourcing
Singapore	Moderate	Strong	Weak
Hong Kong	Moderate	Strong	Moderate
Taipei	Strong	Strong	Strong
South Korea	Strong	Strong	Strong
Thailand	Strong	Moderate	Moderate
Philippines	Strong	Moderate	Moderate
Malaysia	Strong	Strong	Moderate
Australia	Strong	Strong	Moderate
China	Strong	Strong	Strong

Asian Investment Fund Centre

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Our structured, research-based analysis sheds light on the multiple factors affecting your asset management business.

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- High level regulatory information to get you started
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Distribution Strategy

A robust and well-designed distribution strategy should identify the specific requirements and best practices of each local target market for the funds you wish to institute. Our analysis of local markets and key distribution channels (whether direct or via partnerships), along with current best practices, will help you develop a distribution strategy that will maximise your opportunities for success.

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Regulatory Rules

Distribution Models

Budgeting

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Benchmarking studies in the fund industry act as an important tool for establishing, evaluating, and justifying inter-company transactions. In achieving these objectives, the Market Research team provides support in developing such benchmarking studies – as part of the tax documentation and fund structuring process, or to help build revenue models – while also performing sensitivity analysis to help assess the impact of your funds' fee structure on your profitability. In ensuring the reliability and accuracy of our studies, we work with data from specialized databases provided by credited and established vendors within the industry.

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Customised benchmarking comparison

House Views

What fund buyers are looking at

Operational Due Diligence (ODD) & Operational Due Diligence Readiness

Poor operational infrastructure can be a drag on performance and service level. Since interdependencies exist between operational risk and other risk categories, operational failures tend to result in large losses. This is especially important since we are in an environment with increased regulatory requirements for operational risk. Our Investment Fund Centre has experience in performing ODD assessments for investors and has helped prepare asset managers for ODD requests in the APAC region.

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Look out for our next issue of the AWM Market Research digest. Subscribe to receive future research digests at our website here: https://bit.ly/2s4hijH

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