



RBC Investor &
Treasury Services

Industry Poll

*Asia's Perspective
on Ensuring a Sustainable
Future for the Industry*

MAY 2017

Over 120 industry participants at FundForum Asia 2017 shared their views on revenue growth for fund managers in Asia, product priorities over the next five years, and the effect of technology and digitisation on the asset management industry.



INTRODUCTION

At *FundForum Asia 2017* Andrew Gordon, Managing Director, Asia, RBC Investor & Treasury Services moderated an insightful panel discussion on the state of the Asian fund management industry entitled '*Defining Success in Asia To Ensure A Sustainable Future For The Industry*'. The panellists, who included senior executives from prominent asset management firms in the region, shared their views on the opportunities and challenges they face in Asia, product priorities over the next three to five years including UCITS and Asian fund passporting schemes, and the effect of technology and digitisation on the asset management industry.

During the session, forum attendees participated in interactive polling to gauge their views on these issues, with further commentary provided by the panellists.

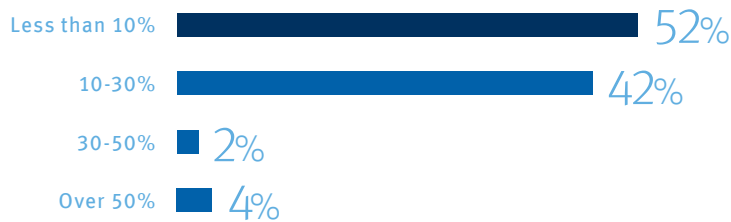
The audience was comprised of over 120 fund industry participants including: fund selectors (33%), asset managers (27%), solution providers (23%), consultants (6%), innovators/fintechs (4%), associations (2%), and others (5%). Geographically the majority of attendees were from across Asia (80%) with others attending from Europe (14%), US (4%) and the rest of the world (2%).

Percentages are approximate.

INDUSTRY POLL RESULTS

1

Over the next five years, what rate will annual revenues earned by traditional fund managers in Asia increase by?



525 million people in Asia consider themselves middle class, which is more than the entire population of the European Union (EU).

Asia – A Growth Opportunity

Asset managers are bullish about capital raising opportunities in Asian markets, according to industry experts speaking at FundForum Asia in Hong Kong. Of note, the pool of middle class investors in the region is growing at an exponential rate.

A study by EY noted that 525 million people in Asia consider themselves middle class, which is more than the entire population of the European Union (EU)¹. The study also projected that over the next two decades this demographic would expand by three billion globally, with the bulk of this growth derived from emerging market populations. EY expects the projected increase of middle income earners in markets such as China and India in particular to be substantial.

A key priority for the mass affluent in Asia is to save for the future, particularly in markets where social safety nets are limited or non-existent. Conventional savers have also seen minimal growth on bank deposits due to unprecedented periods of low interest rates, which is driving individuals to seek alpha through alternate means.

Real estate has a strong following among Asian investors, particularly as it has outperformed financial assets, but there is growing recognition that returns may have peaked. Property expansion in Asia may eventually slow, and if interest rates rise, this could result in a major shift in portfolio behaviour, according to the panel participants. A likely consequence would be a reallocation into traditional asset strategies from real estate.

Panellists noted that these flows will require continued effort on the part of asset managers to win Asian mandates. Panellists argued that the transition from conventional savings to investment funds should be supported by material improvements in how financial advice is provided to the mass affluent in Asia, many of whom are underserved in this area.

Today, fund turnover in the region is high, and mutual funds are viewed more as short term trading instruments than longer term investment tools. The emerging middle class may benefit from further education about how investments work and the long-term financial benefits in order for them to make suitable and informed choices when allocating their money². If this is achieved, asset managers will gain further momentum in the region.

1 Hitting the sweet spot (2013) -EY [http://www.ey.com/Publication/vwLUAssets/Hitting_the_sweet_spot/\\$FILE/Hitting_the_sweet_spot.pdf](http://www.ey.com/Publication/vwLUAssets/Hitting_the_sweet_spot/$FILE/Hitting_the_sweet_spot.pdf)

2 CFA Institute Market Integrity Insights (January 2014): *Wanted: Asian Institutional Investors to Curb Short-Termism*

INDUSTRY POLL RESULTS *continued*

Who is buying what?

UCITS funds, the EU passporting regime with a 30-year legacy, are projected to garner the lion’s share of Asian cross-border flows over the next three years, according to the poll. This expectation has been given a further boost following an agreement between Australia and Luxembourg to streamline the rules making it easier for UCITS funds to be distributed to institutional investors. The strong support for UCITS funds over regional fund passport products – such as Mutual Recognition of Funds (MRF), the ASEAN Collective Investment Scheme (ASEAN CIS) and Asia Region Funds Passport (ARFP) – can be attributed to several factors.

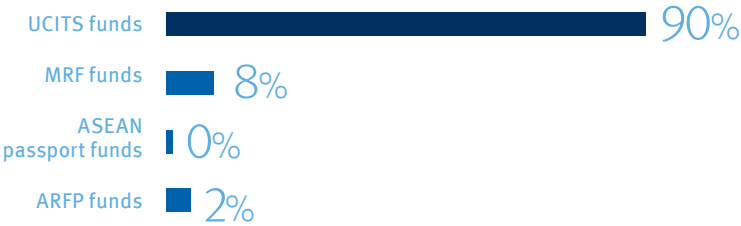
UCITS, with its recognised brand and industry track record, is a simple, consolidated product governed by harmonised EU regulation making it straightforward and easy to understand. The concept of a single market is unfamiliar in Asia meaning there is inconsistency in how cross-border rules on taxation, distribution and registration are applied. In an environment marked by regulatory arbitrage, panellists indicated this may make it more challenging for such funds to be marketed, and may add to investor costs.

There is a further argument that ASEAN CIS and ARFP have been driven primarily by policymakers and regulators, and not by consumer interest or demand. In contrast, MRF between Hong Kong and China sought to solve a long-standing problem, namely that investors in both jurisdictions could not access each other’s funds’ market. As such, panellists were more optimistic that MRF will thrive, particularly as UCITS funds are unlikely to be granted open access to China in the near future.

That being said, the ASEAN CIS and ARFP may enjoy a surge in support, provided local market differences are resolved. The non-participation of China in either scheme is viewed as a detriment given its status as the dominant regional economic actor. It is expected that UCITS and MRF-linked products will be the fund vehicles of choice for Asian investors over the next five years but FundForum panellists suggest that managers also consider the attractiveness of locally domiciled funds, particularly in markets such as China, taking into consideration Chinese capital controls and other operational nuances.

2

Over the next three years which fund type do you expect to achieve the highest level of cross-border sales in Asia?



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INDUSTRY POLL RESULTS *continued*

The Digitisation of Asset Management

The majority of FundForum Asia poll respondents are of the opinion that digitisation and disruptive technology will have the most significant impact on operations, followed by sales and distribution, with only a very limited impact on portfolio management and risk and compliance functions.

Robo-advisors that automate portfolio selection and advice have intrigued industry experts, who see it as an effective tool to enlighten millennials, a tech-savvy investor subset that has generally been unresponsive to the traditional manager marketing approach. The technology may also find support among low value investors who are unable or unwilling to pay for independent advice on portfolio selection.

As asset managers attract increased capital from the mass affluent, robo-advisors could bring affordable scalability across a growing number of accountholders. FundForum panellists do not expect robo-advisors to attract those in the high net worth segment or institutional markets where a higher degree of service and customisation are highly valued.

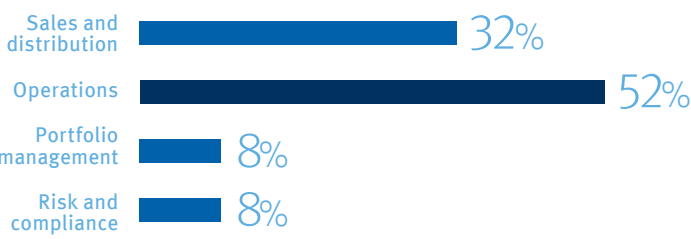
The impact of disruptive technologies may be felt most strongly in fund operations, which have tended to be highly analogue. That being said, fund manager’s operational requirements have increased alongside increasing demands from a regulatory compliance perspective, both of which are being influenced by today’s disruptive forces.

Much of this work, such as know-your-customer (KYC) or anti-money laundering (AML) is repetitive, and some have suggested disruptors such as artificial intelligence (AI) or Blockchain could drive efficiencies while minimizing risk. FundForum participants suggested that, while disruptive technologies will likely bring operational costs down, there is acknowledgement that human judgement will remain pivotal in some sensitive operational areas.

Digitisation will certainly disrupt, but technology will also serve to enhance segments of the asset management industry and early adopters may benefit as a result.

3

Which area of the asset management business do you expect to benefit most from digitisation and advances in technology?



Robo-advisors that automate portfolio selection and advice have intrigued industry experts.

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