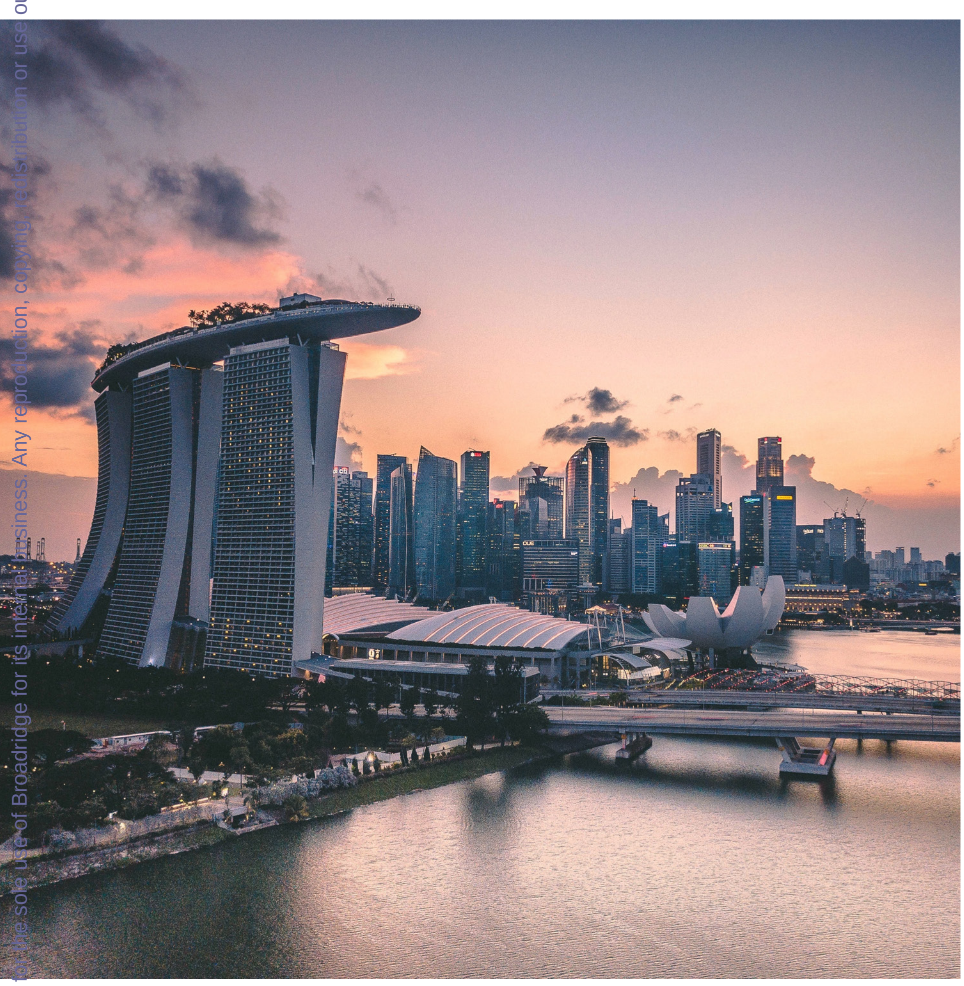
ASSET MANAGEMENT SOLUTIONS

Broadridge®

APAC Insights, June 2020

Gaining a distribution edge in APAC – the world's fastest-growing region

Broadridge Data and Analytics



Ready for Next

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Over the last decade, APAC has been the growth engine of global fund sales, accounting for nearly 25% of long-term flows. While assets under management lag behind the larger European and US markets, the pace of cumulative net sales growth highlights the potential of this fast-growing region. Over a five-year period, sales as a percentage of asset growth have significantly outpaced the other major regions.

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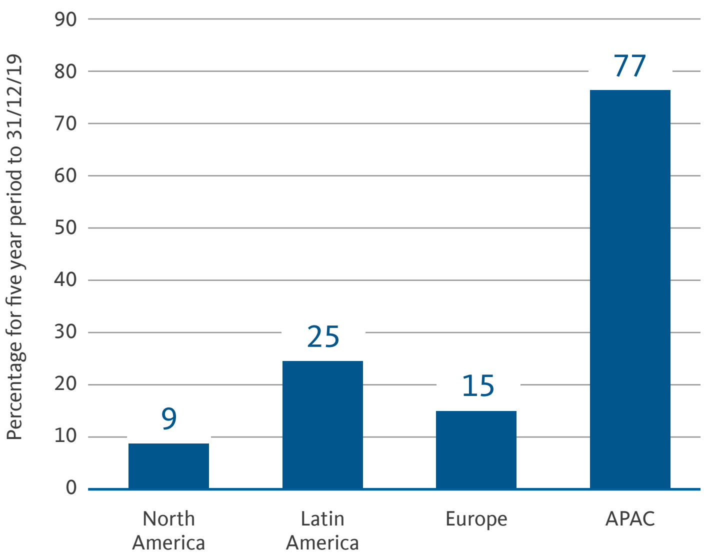
APAC also managed to stand out in the market rout in the first quarter of 2020, with net inflows of US$92bn compared to the collective US$400bn in outflows from the US and Europe. Looking ahead, it still too early to know the full economic and financial impact of Covid-19, but we have revised our growth forecast for the region downwards. Despite the anticipated slowdown, we expect APAC to achieve a 5-year CAGR of 10%, compared to a much more lacklustre performance from the other regions. China will lead the growth in Asia Pacific – it's a country where more significant mobilisation of savings towards long-term investment products, coupled with the prevalence of digital distribution and growing sub-advisory opportunities bodes well for asset managers.

Historically, barriers to entry for foreign asset managers in China have been high. While still not without its challenges, the region offers some attractive opportunities as seismic shifts across the value chain gain momentum. However, distribution success requires careful negotiation and understanding of the more nuanced and multi-faceted channels in a rapidly evolving landscape. A new dynamic environment is emerging where we are witnessing changes to stakeholders and to modes of engagement with distributors and end-investors, as well as new product construction and competitors. In this White Paper, we will delve deeper into three major themes that are accelerating the change in this fast-paced and dynamic region:

1. Seismic shifts in the distribution landscape
2. The rapid growth of sub-advisory models
3. Distribution moving online

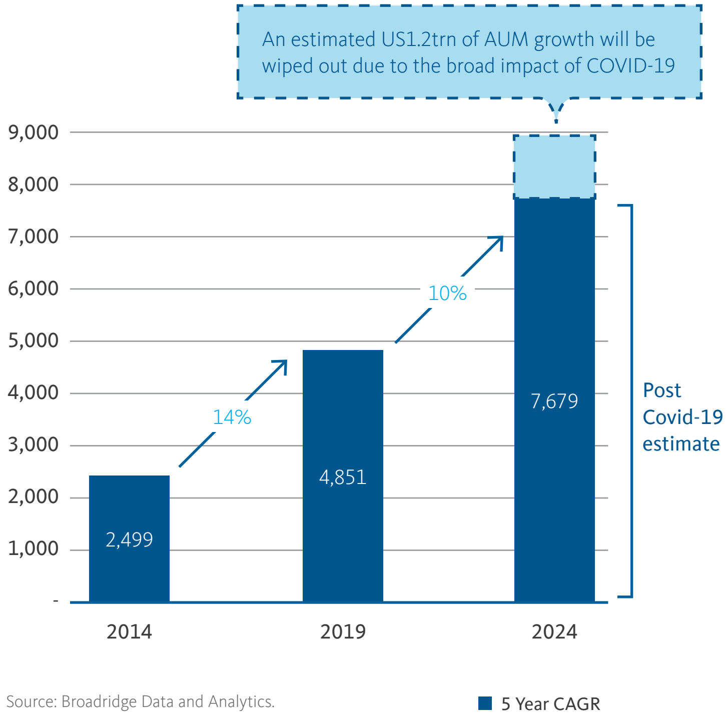
Sales as a percentage of Asset Growth



Notes: Sales calculated from 2015-2019 inclusive. AUM as at 31/12/14.
Ex Money Markets and Funds of Funds.

Source: Broadridge Data and Analytics.

APAC Fund AUM 5-Year Growth Forecast



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1. SEISMIC SHIFTS IN THE DISTRIBUTION LANDSCAPE

Until recently, distribution relationships in APAC were mostly linear and simple – banks dominated the distribution landscape and mainly sold funds to retail investors via face-to-face interactions. Direct distribution on the whole was limited to institutional relationships or legacy business. Now, relationships are becoming more nuanced, with interactions between asset managers and distributors no longer restricted to the manufacturer and intermediary conversations. Increasingly, conversations and fund buying decisions are being influenced online, which is also where new competitors are emerging.

CHALLENGERS TO RETAIL BANK DOMINANCE

New distribution channels from private banks/wealth boutiques, online platforms and securities firms will offer attractive alternatives to traditional options. Consequently, we expect the market share of retail banks to fall by 5% with online platforms, direct sales, private banks and IFAs all benefiting from the decline.

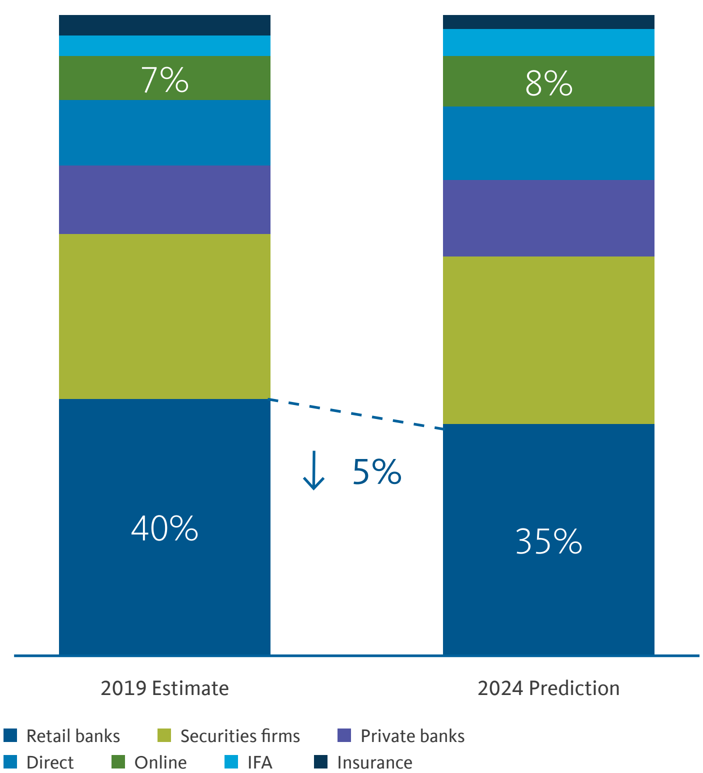
With continuing digital disruption, the mass retail market has more options beyond banks to buy funds, such as online platforms and robo-advisers, which are offering greater variety, and importantly at a lower cost. Retail banks are responding and reinventing themselves with the launch of their online platforms, while digital advisers are targeting HNWIs and corporate clients with more holistic suites of products and services. Examples include Bank of Singapore, Fubon Bank and China Merchant Bank.

The online digital landscape is diverse and growing fast with players including independent Fintech start-up disruptors and bank- and insurance-backed companies. China leads online distribution, but Hong Kong and Singapore show promise with the emergence of virtual banks – and independent offerings. Examples in Hong Kong include Chloe by 8 Securities and Robo 360 by CITIC Bank. While in Singapore Digifolio from DBS bank and the independent, Stashaway, are some of the options available to local investors.

DISTRIBUTORS BECOMING MORE FOCUSED

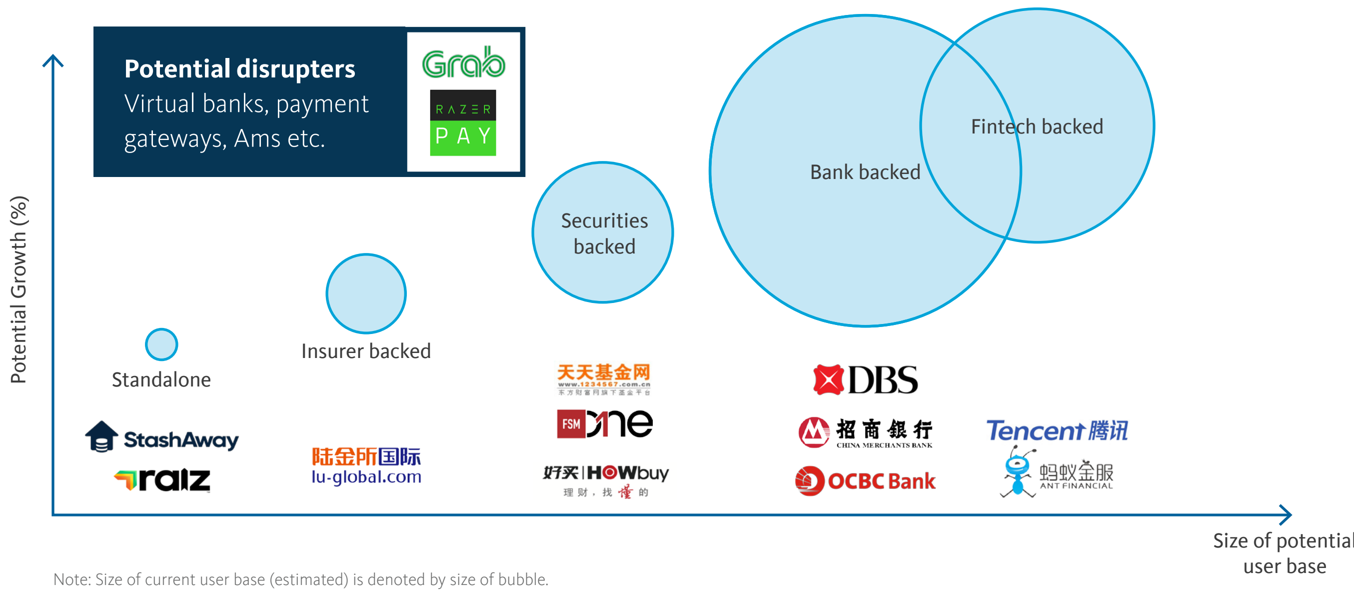
With rising compliance and client-acquisition costs, distributors are taking a more focused approach to identify and serve their target market where client segmentation is becoming more sophisticated and more organised. For example, human advisers/ relationship managers are reserved for the wealthiest clients, while online tools are used to reduce the costs of servicing the less affluent/mass retail segments. To avoid being treated as a mere commodity, asset managers need to differentiate their offering through the strength and quality of products and relationship management. As face-to-face sales opportunities reduce, it's also important to have simple products that can be easily communicated to facilitate online sales.

Estimated distribution channel breakdown in Asia, 2019 vs 2024



Source: Broadridge Data and Analytics.

Overview of APAC online distribution landscape



Note: Size of current user base (estimated) is denoted by size of bubble.

Source: Broadridge Data and Analytics.

WHAT DOES THIS MEAN?

The online distribution landscape is diverse and growing

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2. GROWING IMPORTANCE OF SUB-ADVISORY MODELS

Broadridge estimates sub-advisory assets will grow by 10% in the next five years, faster than the entire Asian mutual funds industry. Australia and Japan are currently the largest markets – while the superannuation system has driven growth in Australia, Japan's growth has been fueled by a combination of the rise in discretionary portfolios/fund wraps and the outsourcing of overseas investment exposure by domestic fund managers.

While Australia and Japan are the current powerhouses, we expect China to emerge as the biggest source of sub-advisory opportunities over the next five years. Growth in private funds and banks selling wealth management products (WMP) will accelerate Chinese market share. Meanwhile, despite being relatively small in terms of AUM, Malaysia and Thailand offer global managers an easier route via feeder fund structure to market cross- border funds as it is less resource intensive.

ACCESSING SUB-ADVISORY OPPORTUNITIES

Currently, sub-advisory opportunities in China can be accessed via these three main routes:

- QDLP
- Bank WMP/fund wraps
- Providing advisory services to private funds

CHINA

We are most bullish about opportunities from the bank WMP channel. The recent clampdown on shadow banking as well as the spin-off of bank wealth management subsidiaries will result in a more transparent and favourable landscape for third-party managers to compete. A combination of exponential growth expected at these new bank WM subsidiaries and weak in-house investment capabilities could create up to US$236bn in outsourcing opportunities by 2024. Global managers already operating in the country through product partnerships, preferential distribution agreements and JVs, have a head start in developing business through this channel.

THAILAND AND MALAYSIA

In both Thailand and Malaysia, exposure to foreign funds continues to increase as their respective markets keep on underperforming their regional/global peers. Local managers lack international in-house investment capability and so tap into overseas exposure through sub-advisory arrangements. The route to market for foreign asset managers is via strategic alliances and partnerships with local managers. Competition though, is intensifying as local groups look to streamline the number of managers they work with. A strong product offering that includes funds with stable payouts or offering access to popular investment trends will be more attractive to prospective partners.

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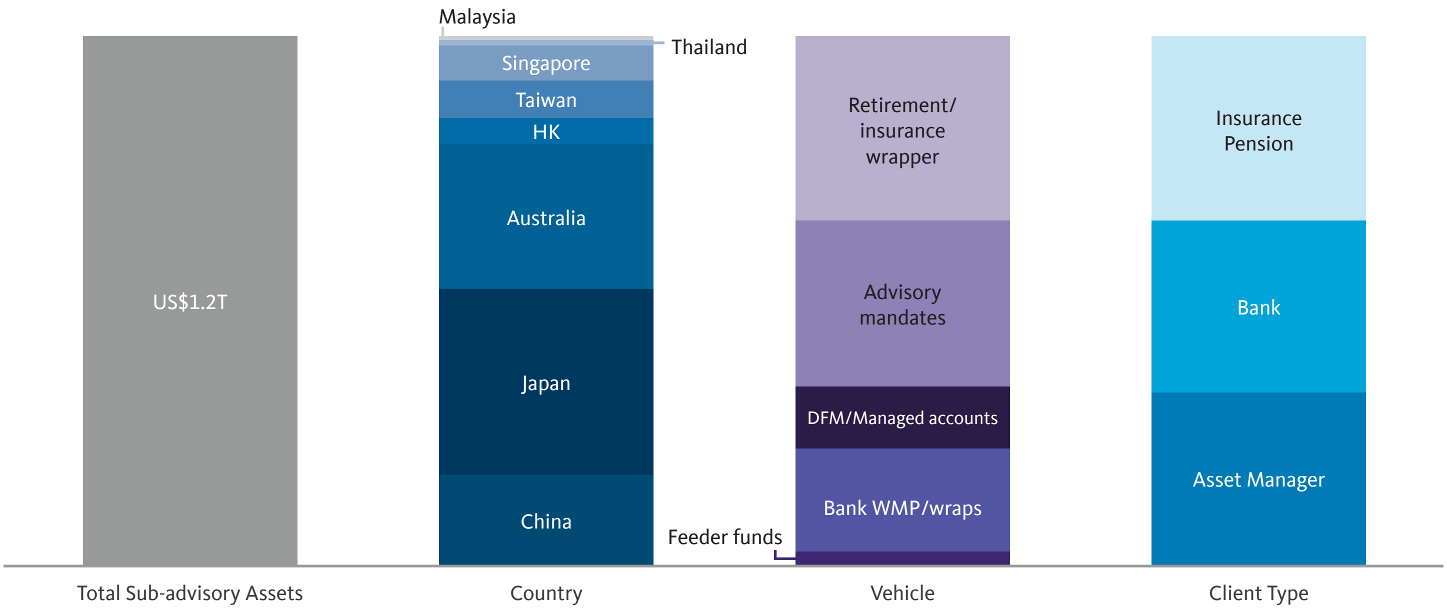
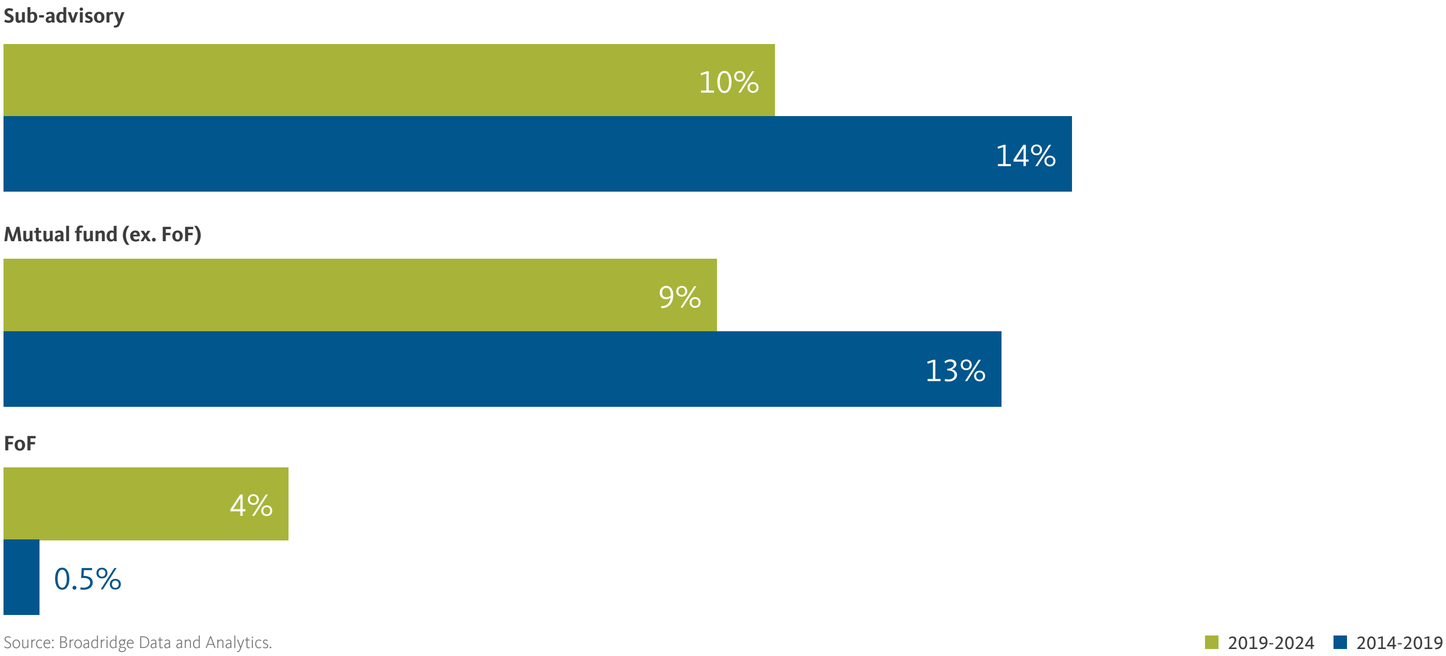
Breakdown of APAC Sub-advisory Assets, US$B, 2019



Source: Broadridge Data and Analytics.

Growth Forecast %



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3. THE FUTURE OF DISTRIBUTION IS ONLINE

TECHNOLOGY DRIVING NEW CLIENT EXPERIENCES AND ENGAGEMENT

As mobile phone penetration increases, investor demand and expectations are more discerning around brand engagement and customer experience. Notably, investors expect increased transparency of investment processes, 24/7 access to individual portfolios and the availability of low-cost and customisable solutions. To support brand awareness, visibility on online platforms, and social media have become essential ingredients. While new online distribution channels have set the pace in user experience, traditional channels such as banks and securities firms are revamping their digital strategies. At a country level, China leads the way with some of the largest distributors of online funds including Ant Financial. The company's online platform provides AI-based operational and sales support to help fund manufacturers' lower distribution costs and recently established a joint venture with Vanguard to grow its retail advisory business.

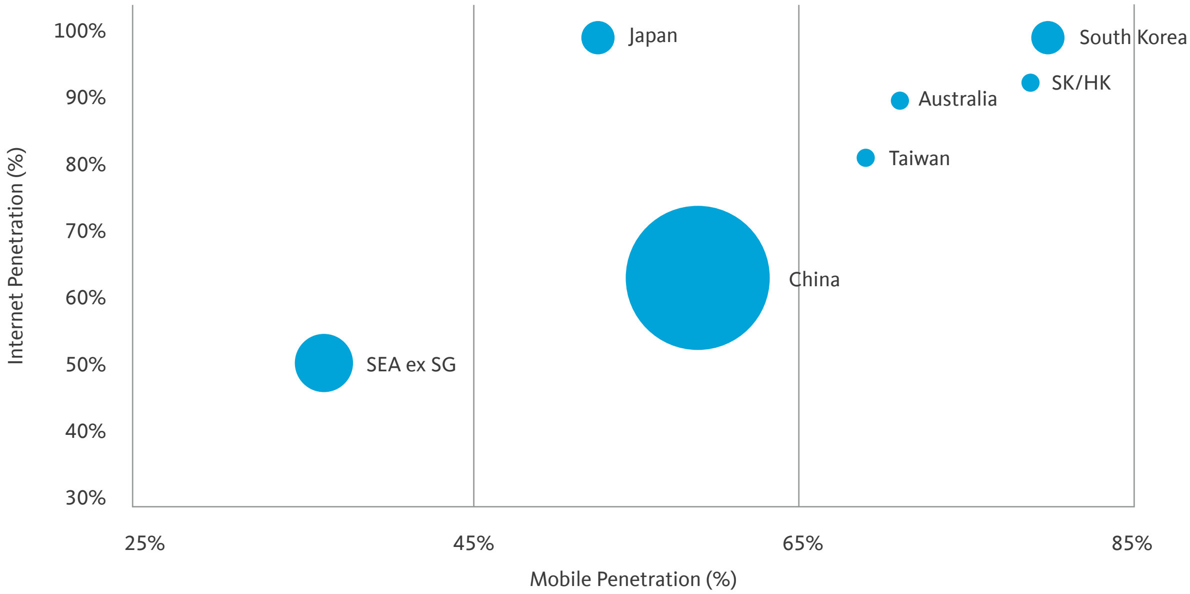
COVID-19 ACCELERATES SHIFT TO ONLINE SOLUTIONS

The ability of customers and companies to interact via the internet became more important as the coronavirus outbreak unfolded, including in asset management. From Alipay growing its daily fund sales four-fold in February 2020, to blockbuster online fundraising in China, the battle for the fund dollar has increasingly turned online, including direct engagement with investors through online streaming events.

REGULATORY PUSH TO EXPEDITE LONG-TERM SAVINGS

Regulators across Asia are introducing initiatives to promote financial literacy and leverage technology to encourage long-term savings to narrow the retirement gap. Initiatives include supporting the growth of portfolio advisory services and approval for virtual banks to be set up.

APAC mobile penetration, 2018 (%)



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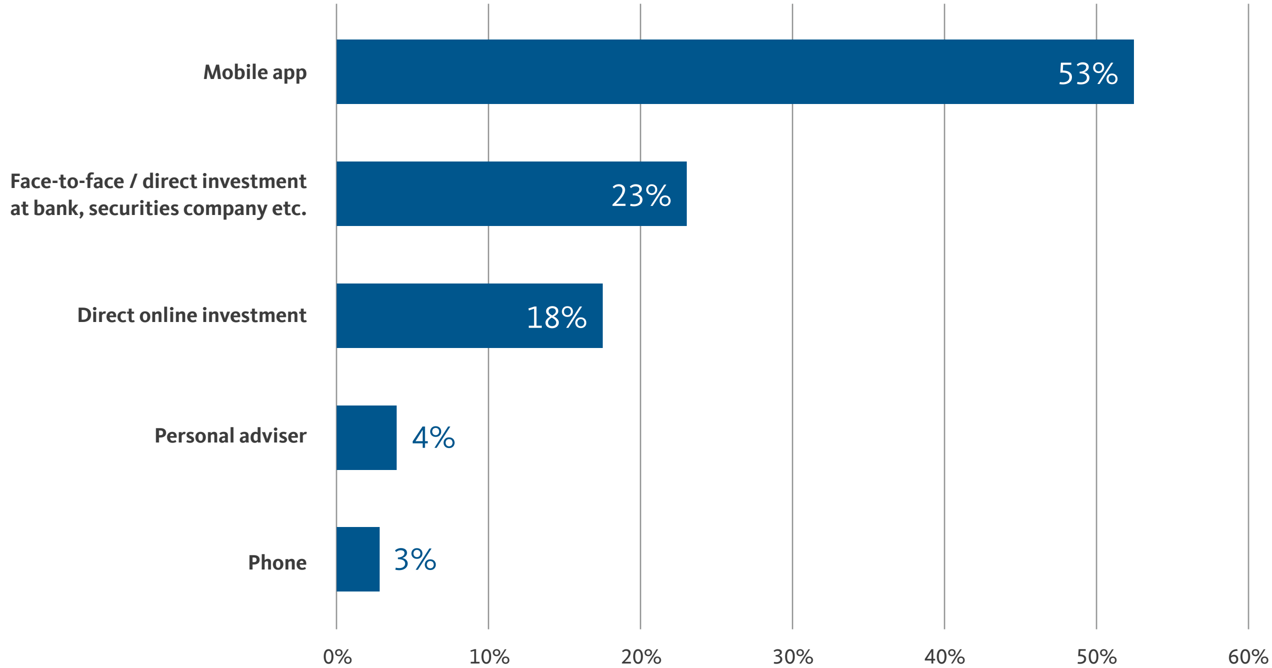
Most Common Way for Chinese Investors to Buy Funds (%)



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ADAPTING TO CHANGE

Whether looking for an entry strategy or pursuing market growth, asset managers require a clear plan to tap into the most appropriate opportunities for their business in APAC. The dynamic and multi-faceted distribution landscape will continue to evolve, and we recommend asset managers focus on four key areas:

1.DISTRIBUTION ALIGNMENT

Local knowledge of the region and internal resources will dictate the best approach for individual managers and the optimum distribution mix. In the past, the success of global asset managers has been linked to setting up local offices and establishing strong relationship ties. But with technological advancements and local regulatory relaxations, there are more routes to market available to managers:

Sub-advisory: The least resource-intensive and suited for those with strong investment capabilities, but a limited local presence.

Beyond retail banks: Target distributors with excellent growth potential (online, HNWIs, millennials). You'll likely be able to ink up partnerships if you can offer something in exchange too, eg knowledge transfer or distribution ties in your home/ foreign markets

Direct distribution: Viable in select markets where you can allocate resources and scale effectively. However, it is important for asset managers not to jeopardise existing distribution relationships and prioritise target segments. Due to its size, China is the testbed for some managers. For example, Vanguard collaborating with Ant Financial in China to set up retail advisory and Amundi/BlackRock establishing bank wealth management subsidiaries with local bank partners. Additionally, some managers are exploring other markets with a high concentration of HNWIs, such as Hong Kong.

2. LONG-TERM RELATIONSHIPS AND DIGITAL ENGAGEMENT

The impact of new fund launches on overall net fund flows is declining with most new funds seeing net outflows within six months of their launch dates. Combined with the cost of maintaining funds rising, it is more efficient to focus on a smaller suite of products, scale them effectively and build stickier assets through stronger relationships. The latter will require a strong commitment and investment in digital, with more resources allocated to upgrading infrastructure and employee skills as online sales become a core channel.

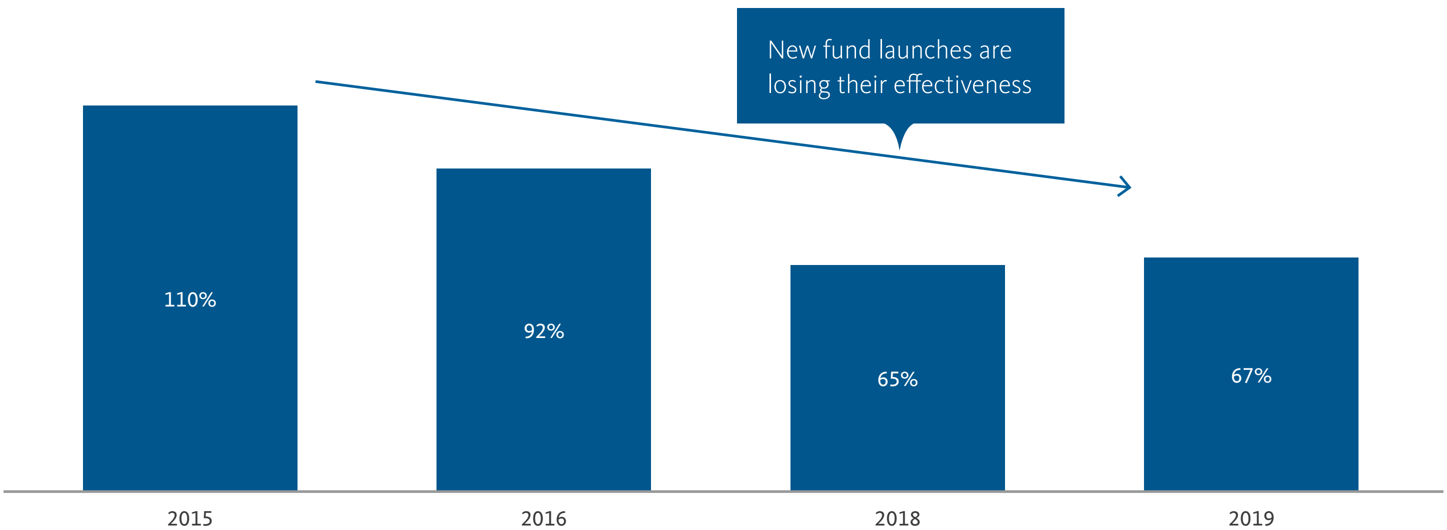
3. CLARITY OF PROPOSITION AND CORE STRENGTHS

With over 75% of managers' fund flows coming from their top-3 funds, it is imperative to prioritise and focus resources on a target range. Sustainable investing, stable income and thematic funds are megatrends that will shape product demand across the region.

4. RESPONDING TO LOCAL FUND SELECTORS' NEEDS

Fund selectors are looking for business partners that have strong branding, quality fund management teams and comprehensive coverage of business demands for current and future needs. While performance is important, a strong track record will be obsolete if managers cannot demonstrate they are in tune with drivers of change and new investment trends. For example, focusing on sustainable and long-term megatrends to create solutions that are robust, relevant and scalable. Meanwhile, brand awareness is far more important to fund selectors in Asia compared to their European peers. Although size and solidity are the top drivers behind brand engagement, specialist managers can compete by offering best-in-class products within select segments.

Share of net fund flows via new fund launches, 2015-2019 (%) [1]



1. 2017 is excluded as mutual funds' net flows were negative in the region

Source: Broadridge Data and analytics.

Top Brands in Asia [2]

Source: Broadridge Data and analytics.

Rank	Group Name	Total Brand Score	Europe Rank
1	JP Morgan AM	985	2
2	BlackRock	865	1
3	Fidelity	570	3
4	AB (Alliance Bernstein)	552	58
5	Allianz GI	459	18
6	PIMCO	372	10
7	Schroders	360	6
8	Franklin Templeton	334	15
9	First State	143	--
10	Aberdeen Standard Inv.	131	32

Size has a big influence on Asian brand scores

Mid-sized firm but known for their MA and equity range

2. Based on interviews with 150 fund selectors in Asia cross-border hubs of Hong Kong, Singapore and Taiwan.

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