

INDEPENDENT ASSET MANAGEMENT IN ASIA

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Statistics and observations derive from 20 interviews and questionnaires conducted with independent asset managers and multi family offices in Singapore and Hong Kong between November 2015 and March 2016 by the Citywire Asia team.

PART ONE INTRODUCTION

The private wealth industry in Asia has traditionally been dominated by a mix of local and foreign private banks. However, in recent years, independent wealth management firms, including multi-family offices (MFOs) and independent asset managers (IAMs), have mushroomed in Asia.

While the concept of independent asset management is commonplace in Europe, it remains in its infancy in the region. Pioneered by ex-private bankers in the wake of the 2008 global financial crisis, IAMs were first set up in Singapore, and later in Hong Kong, with the key aim of managing client assets independently. At the same time, multi-family offices have also started to offer IAM-type services, blurring the lines of independent asset management.

To better understand the independent asset management space in Asia, we interviewed over 20 players providing IAM services through surveys and face-to-face meetings from November 2015 to March 2016. For the purpose of this research, we selected only providers who (1) cater to private clients and/or institutional investors and (2) generate at least 50% of their revenue from IAM activities. For simplicity's sake, we will refer to them as *IAM providers*.

In this white paper, we deep-dive into business plans of these providers, starting with the basics – defining the IAM model, looking at their existing services, clients and partners, and how these are expected to evolve over the next five years.

Ivy Pan

Senior Researcher, Citywire Asia



PART TWO

THE INDEPENDENT ASSET MANAGEMENT MODEL

Citywire defines an independent asset manager (IAM) as a firm which provides tailored and independent wealth management solutions to private clients and/or institutional investors.



In **Singapore**, accredited investors refer to:

- (i) individuals whose net personal assets exceed S\$2 million or whose income in the preceding 12 months is not less than S\$300,000
- (ii) corporations with net assets which exceed \$10 million



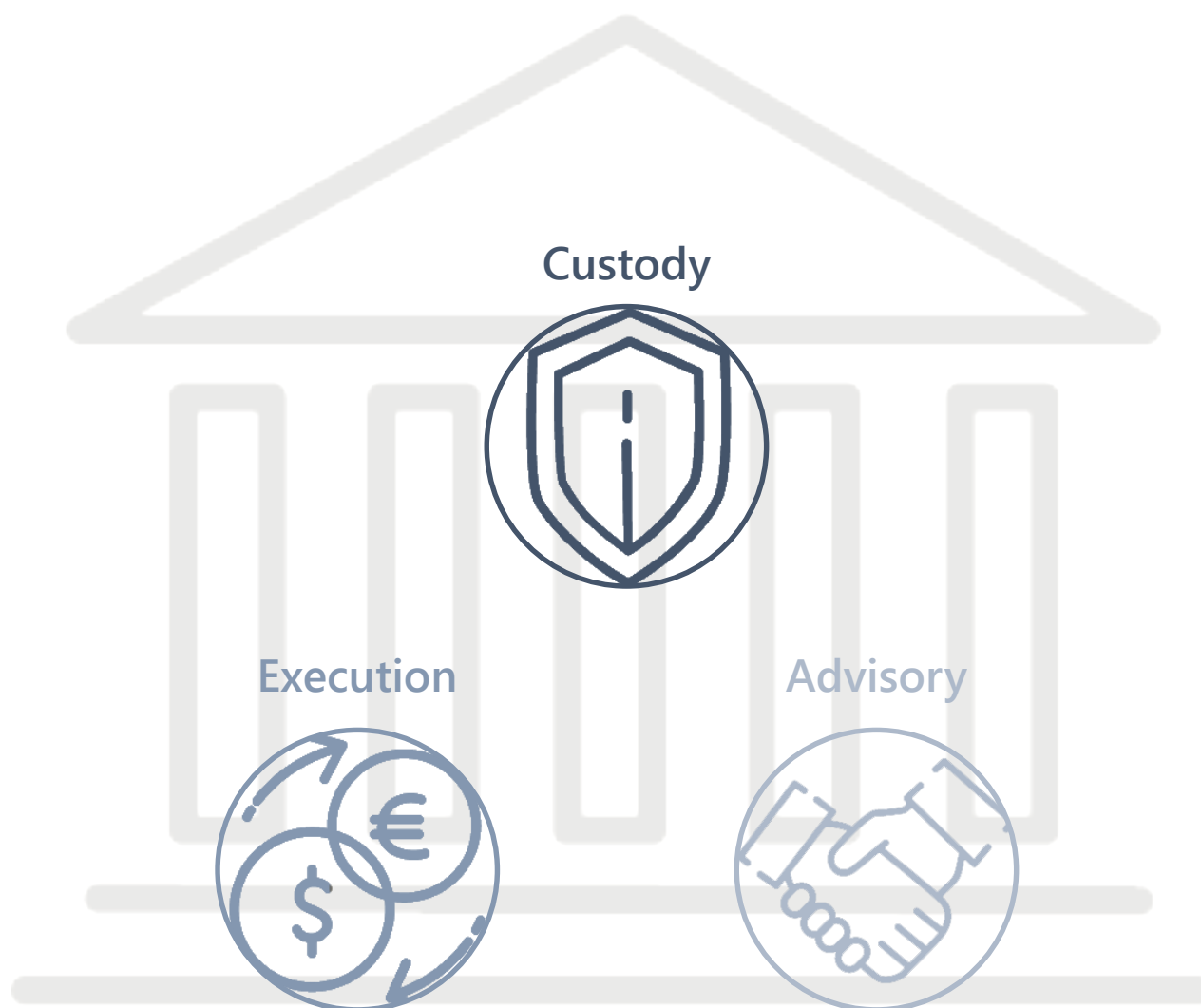
In **Hong Kong**, professional investors refer to:

- (i) individuals whose portfolio exceeds HK\$8 million
- (ii) corporations with a portfolio of at least HK\$8 million or HK\$40 million in total assets

PART TWO

THE INDEPENDENT ASSET MANAGEMENT MODEL

Traditional Private Banking Model



In the traditional private banking model, private banks provide clients with a combination of custodian, execution and advisory services.

PART TWO

THE INDEPENDENT ASSET MANAGEMENT MODEL

The independent asset management model unbundles the existing package of services – custodian, execution, and advisory – provided by private banks.

Independent Asset Management Model



In this model, independent asset managers only provide clients with advice. IAMs neither take custody of client assets nor execute trades, and usually rely on private banks for both custodian and execution services. At the same time, they can also opt to work with third party execution partners such as brokerages.

“What we are seeing is the decoupling of the traditional private wealth model. IAMs add value by focusing on advisory services and picking the best partners for custodian and execution services.”

PART TWO - ADDENDUM

ON INDEPENDENCE

But what does it mean to be independent? Citywire noted a few definitions of independence from the IAM providers that we interviewed:

- 1** Independent of a bank
- 2** Solution Independence
- 3** Jurisdiction Independence

“Instead of working with a fixed menu of solutions, IAM providers tend to be solution agnostic. We are also constantly adapting to the needs of clients. If there’s something a client needs that we don’t yet provide, we try to find new partners.”

“We are a small outfit, so it makes sense to have a single touchpoint for clients. When there are issues that concern multiple jurisdictions, clients do not have to go through the hassle of being referred from one country expert to another.”

PART THREE

PROFILES OF INTERVIEWED IAM PROVIDERS

Where?

Most participants in this white paper have extensive experience in the private banking space. Below are some examples of the organisations that they have worked at prior to joining the IAM community:

ABN AMRO
BNP Paribas Private Bank
Credit Suisse
Coutts
Deutsche Bank
EFG Bank
HSBC Private Bank
Indosuez Wealth Management

JP Morgan
Julius Baer
Macquarie Bank
Pictet Wealth Management
Morgan Stanley
Societe Generale Private Banking
UBS
UBP

Why?



Employees of IAM providers have moved out for various reasons – some wanted more work autonomy, while others had clients who wanted their assets to be managed independently.

Major changes within the private banking space, including restructuring and consolidations, have also been key to the proliferation of IAM providers.

“The focus on compliance was tremendous at my previous firm. I was spending 80% of my time on compliance matters instead of understanding the needs of my clients. Now, I am able to spend a lot more time with my clients.”

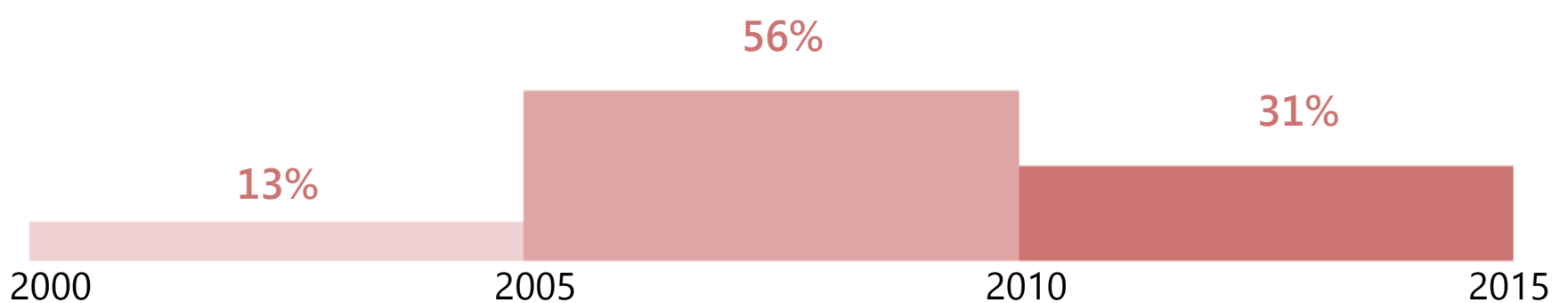
PART THREE

PROFILES OF INTERVIEWED IAM PROVIDERS

Finance professionals often make careful calculations over an extended period of time, usually years, before setting up these independent entities. Clients' support are a key determinant in making these moves, and founders of IAMs and MFOs usually source a minimum amount of assets before leaving their respective organisations.

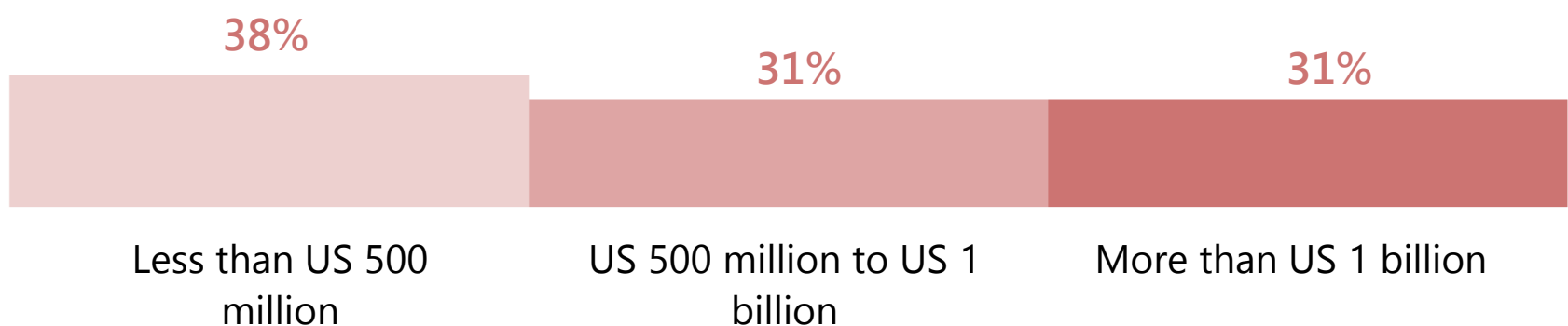
"I knew the working culture would be vastly different in a merged entity, so I spoke to my clients about the possibility of me advising them as an independent asset manager. Not all were keen, but I had enough clients who trusted me enough to continue receiving my advice."

When were they founded?



87% of interviewed IAM providers were set up after 2005, and the most recent IAM provider started its business in 2015.

How much assets are they managing?



Over half of participating IAM providers managed at least US 500 million, while 38% managed less than US 500 million in assets.

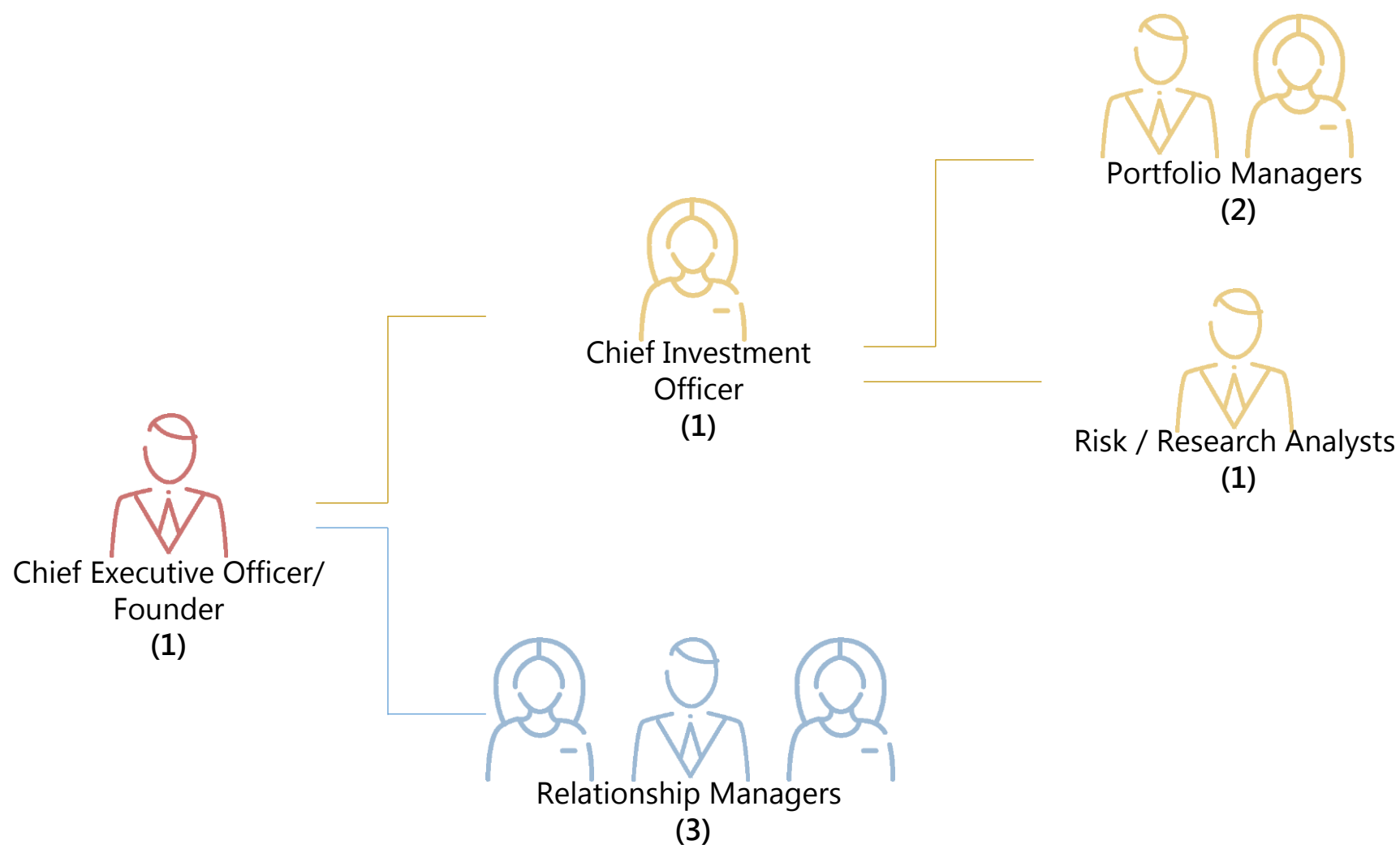
PART THREE

PROFILES OF INTERVIEWED IAM PROVIDERS

How are roles split?

Average IAM

Employees at a typical IAM are split into either the investment or relationship management team. The chief investment officer sets the tone for investments, and is usually aided by a team of portfolio managers and analysts.



PART THREE

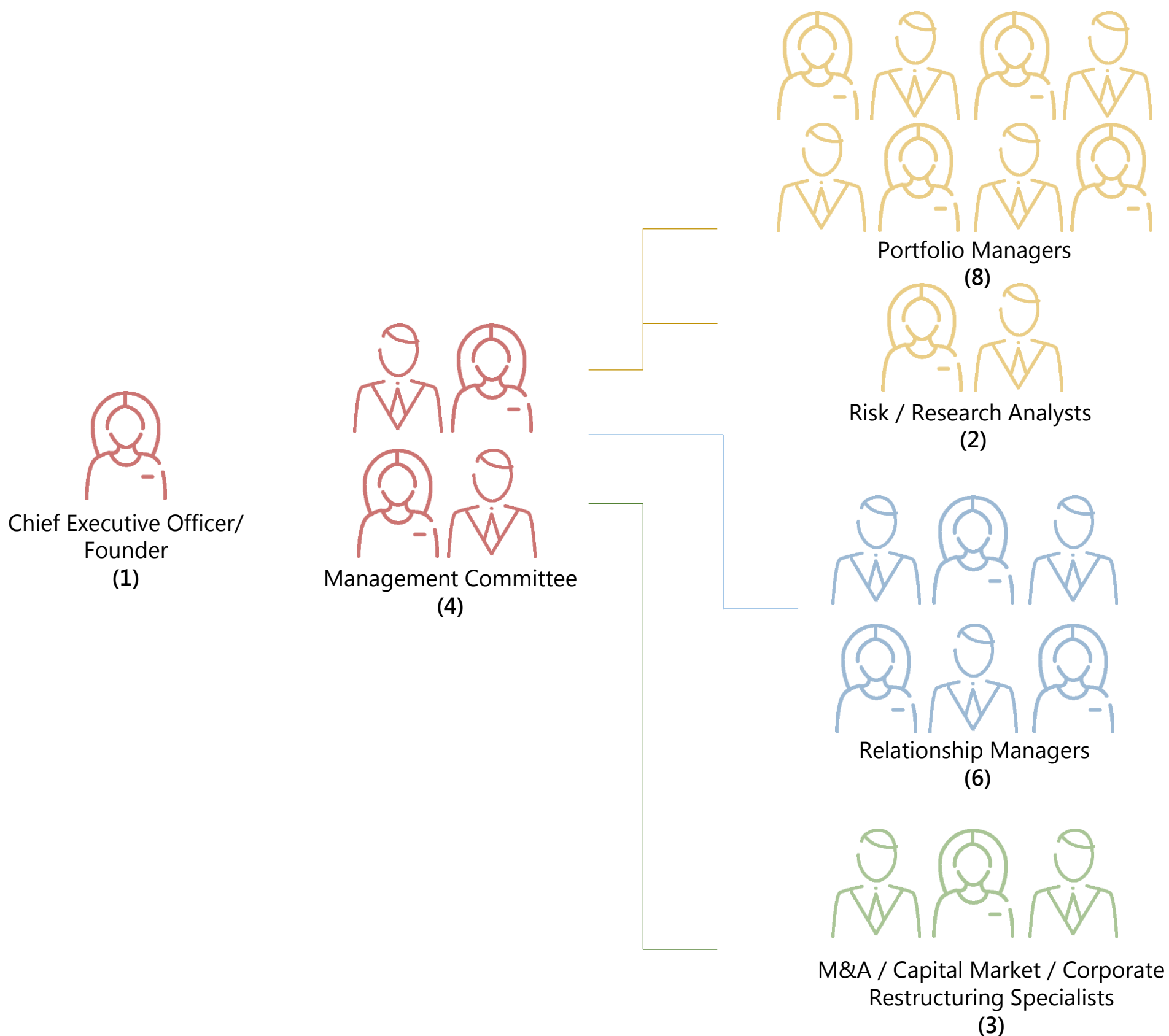
PROFILES OF INTERVIEWED IAM PROVIDERS

How are roles split?

Average MFO

MFOs, on the other hand, tend to have a larger team. They are usually led by a management committee (chief operating officer, chief investment officer, chief compliance officer etc.), and have more investment staff compared to IAMs – the largest investment team at an interviewed MFO had 14 specialists.

Besides IAM-type services provided by the investment and relationship management teams, it is also common for MFOs to provide corporate advisory services.



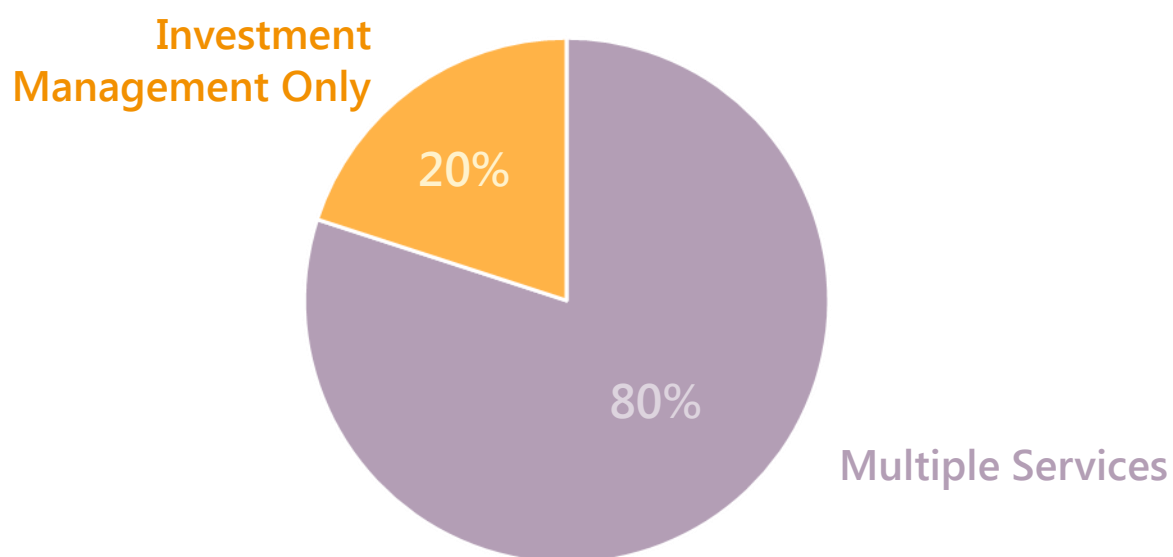
PART FOUR

ADDING VALUE

Of the IAM providers that Citywire interviewed, a-fifth are “pure” IAMs and focus wholly on investment management services.

On the other hand, 80% offer a variety of financial services, including investment management, wealth management (property acquisition, trust management, succession planning), philanthropy (charitable giving, charitable vehicles) and administrative functions (estate management, legal services).

Types of Services Provided, 2015



Citywire also observed that about two-thirds of interviewed IAM providers run in-house strategies while offering client advice. To prevent a conflict of interest, providers believe that these strategies should be constructed with clients’ investment needs in mind. At the same time, they agreed that external checks are imperative to ensure impartiality.

“Given the competitive landscape of the private wealth industry, providers have a vested interest to recommend the most suitable products (in terms of risk, performance, and cost) to build long-term relationships.”

PART FOUR

ADDING VALUE

Differentiating Factors for IAM Providers, 2015



IAM providers identified having **qualified and experienced staff** as well as the ability to provide **personalised client experience** as major value propositions. However, they also acknowledged that it is challenging to attract suitable candidates. Besides having a limited pool of experienced private bankers to tap into, providers often find it difficult to match the current pay packages of these private bankers.

On the other hand, having strong research expertise and charging lower fees are regarded as less important factors in differentiating themselves. In fact, some providers charge no less than private banks.

“I’ve done an analysis of how much clients pay when they work with us and at a private bank, and the difference is negligible (+/- 10 basis points). But the thing is, we’re not competing on fees. We’re value-adding by providing personalised service, not cost savings.”

PART FIVE

CLIENTS AND PORTFOLIOS

Total Client Assets by Investor Type, 2015 vs. 2020E



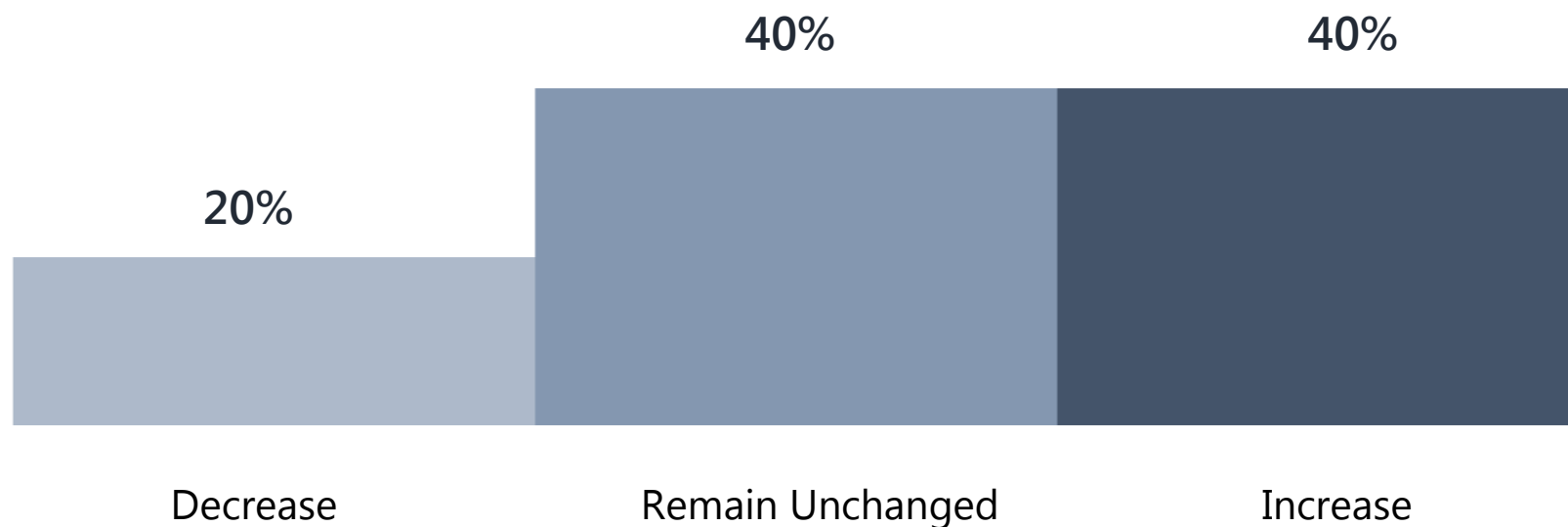
Investments from high net worth investors (HNWIs) made up close to half (49%) of the total client assets, while assets of ultra high net worth investors (UHNWIs) and institutional investors (family offices, corporates etc.) occupied 35% and 16% of the pie, respectively, in 2015.

Moving forward, IAM providers expect to manage a greater proportion of assets from the UHNWI and institutional investor segments. The tilt towards the institutional investor segment is most notable, where the proportion of assets managed is expected to increase by 7 percentage points by 2020.

PART FIVE

CLIENTS AND PORTFOLIOS

Change in Proportion of Assets from Asia-based Clients, 2015 vs. 2020E



With hubs in Singapore and/or Hong Kong, it is natural to assume that IAM providers in Asia have ambitions to further penetrate the region.

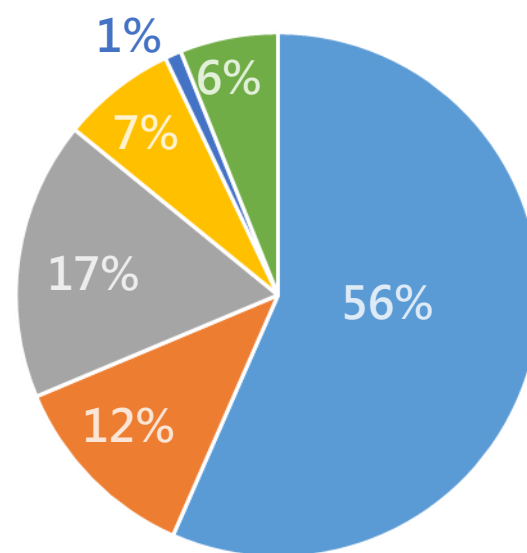
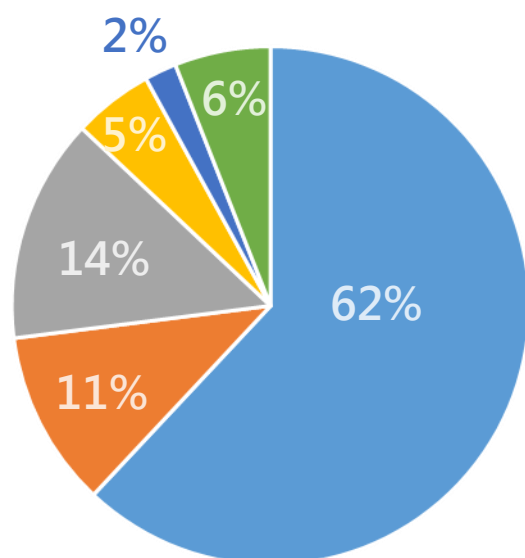
Interestingly, while 80% of interviewed IAM providers intend to either increase or maintain their focus on the region, a minority have intentions to increase the proportion of assets sourced from clients in other regions, specifically Europe. Of those intending to deepen their penetration into Europe, most are home-grown IAM providers with little or no European affiliation.

Whatever their client strategy, a few key trends stand out in this space: by 2020, surveyed IAM providers expect at least a third of client assets to be sourced from Asia, and are steering clear of US-based clients.

PART FIVE

CLIENTS AND PORTFOLIOS

In 2015, surveyed IAM providers invested the bulk of their assets in direct securities. **Mutual funds, ETFs and passive investments** collectively made up a quarter of the average portfolio.

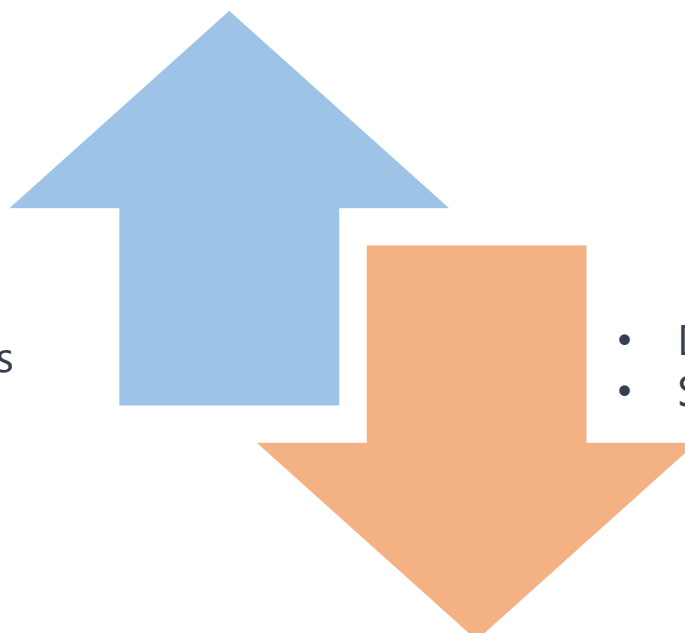


Average Portfolio Split, 2015

Average Portfolio Split, 2016E

IAM providers expected to reduce their exposure in direct securities and structured products in 2016. They also had intentions to increase their allocation to alternatives, ETFs & passives and mutual funds.

- Mutual Funds
- Alternatives
- ETFs and Passives



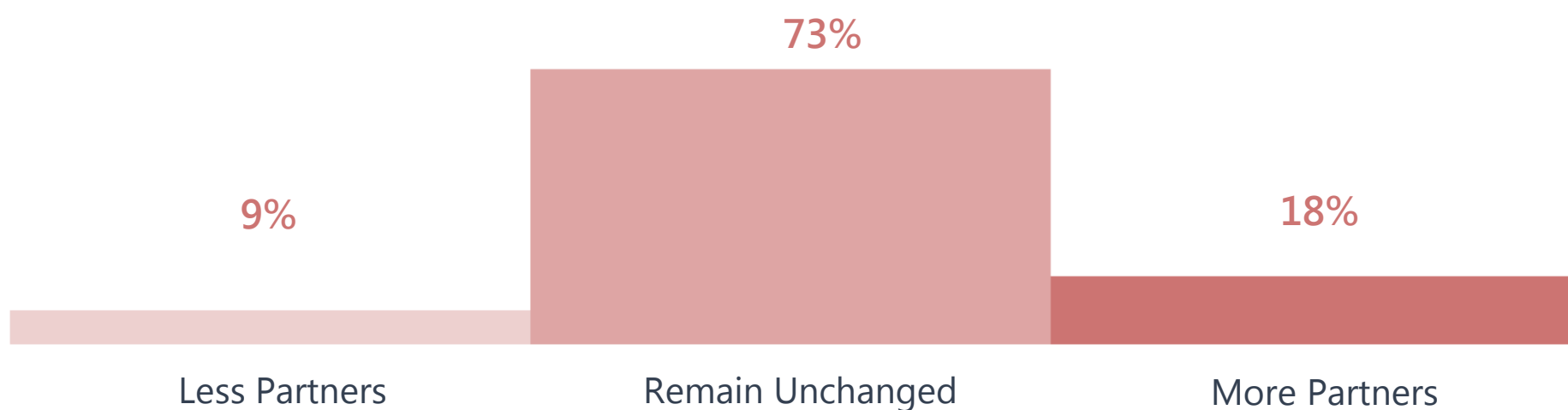
- Direct Securities
- Structured Products

PART SIX

EXTERNAL PARTNERS

Change in Number of Private Banking Partners, 2015 vs. 2020E

On average, IAM providers that we surveyed currently work with 6 private banks.



When quizzed, 73% of interviewed IAM providers told Citywire that they were comfortable with the current number of private banking partners, and do not expect to onboard new partners over the next five years.

More than half also revealed that they worked with a set of preferred partners, an arrangement that tends to allow them to negotiate for better terms – in some instances, providers have been able to negotiate for uniformed custodian fees across all partners. In addition, IAM providers are often mindful of the new processes and platforms that they have to adopt when adding on new private banking partners.

That said, a handful remain open to working with a range of private banking partners.

PART SIX

EXTERNAL PARTNERS

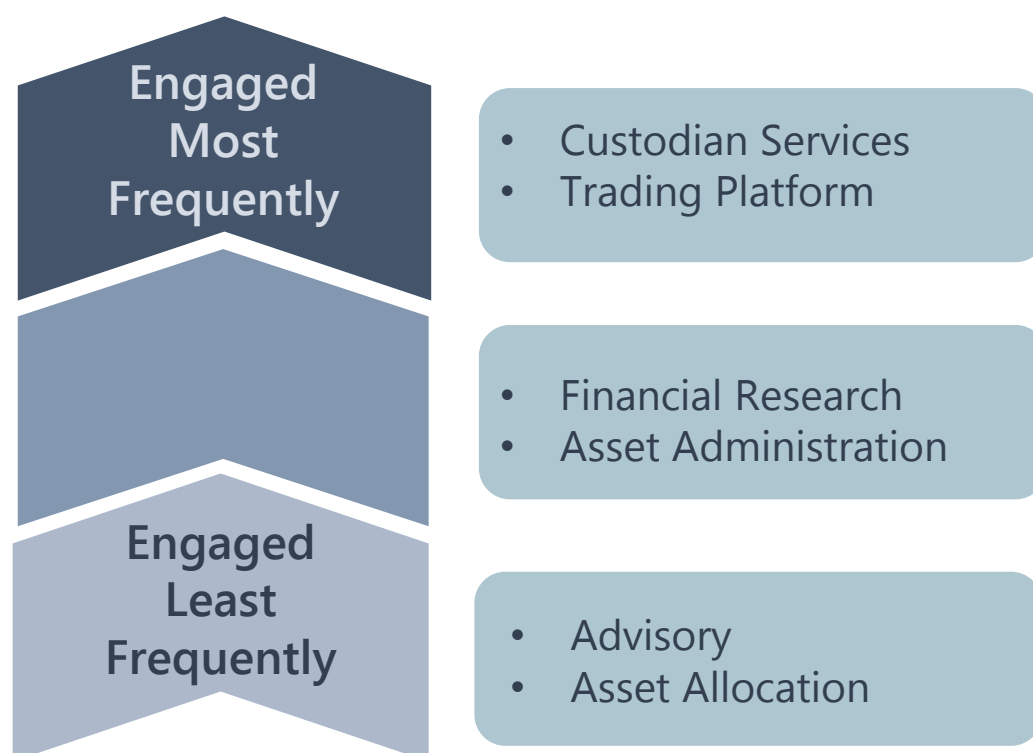
Key selection criteria

When selecting private banking partners, the following factors are most important to IAM providers:



IAM providers acknowledged that relationship managers at banks with dedicated desks tend to be more experienced, and provide greater assurance when handling client information. Having a strong balance sheet is a key differentiator, and some will steer clear of over-leveraged banks.

Engagement of services



In 2015, **custodian services** and **trading platforms** were the most frequently (100%) used, followed by **financial research** and **asset administration** services (80%). Only a-fifth made use of **advisory** and **asset allocation** services provided by private banks.

Most expect minimal change in the engagement of these services over the following five years, except for the use of trading platforms. 30% of interviewed IAM providers are looking for alternative partners, citing costs and inefficiency as main reasons to work less with existing partners.

PART SEVEN

WHAT LIES AHEAD

In summary, Citywire has observed a few trends in the independent asset management space in Asia.

A fraction of IAM providers focus only on investment management, while most offer a suite of financial services.

Most IAM providers in Asia expect to deepen their penetration into the ultra high net worth and institutional client segments in Asia over the next five years.

Like their clients, IAM providers want customised service. Having a dedicated desk is crucial for private banks to build a successful IAM business.

The level of engagement that IAM providers have with existing private banking partners may change if they find more efficient alternatives, especially in the execution space.

As the industry evolves, IAM providers in Asia will need to adapt to survive. While keeping abreast of environmental changes, Citywire believes that these entities will need to tailor their offerings and adjust their business models to stay ahead of the pack.

Given the fragmented nature of the current landscape, Citywire also expects to see a wave of consolidations over the next few years, and eventually the emergence of a distinct breed of IAM providers with a stronger identity.

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