IGNITES ASIA
A Financial Times Service

Print | Close Window

CEOs of Asian fund firms tackle growth, challenges

By Rita Raagas De Ramos April 27, 2012

CEOs of Asian fund companies discussed opportunities for growth and the challenges of creating regional businesses at a panel discussion on Tuesday at the Fund Forum Asia 2012 in Hong Kong.

China AM HK

Anthony Ho, deputy CEO at China Asset Management (Hong Kong), pointed out that with a household savings level of around Rmb30 trillion (US$4.76 trillion) in the mainland compared with around Rmb2.5 trillion (US$396.8 billion) in mutual fund assets, companies "still have a long way to go in terms of fully penetrating the mutual fund market".

There were a total of 914 mutual funds in China, with total assets of Rmb2.188 trillion (US$347.30 billion), as of end-December, according to the Securities Association of China (SAC). China now has 71 fund management companies, including 39 Sino-foreign joint ventures.

There are also opportunities in the institutional side of the business, Ho said. "We have seen more opportunities in terms of sovereign wealth funds, as well as the pensions markets and the corporate area as well."

From the offshore perspective, the opportunities for China's fund companies rest on their Hong Kong subsidiaries, according to Ho and his co-panellists at the conference. ICBC Credit Suisse Asset Management (International) Company officially opened its office in Hong Kong last month, making it the 13th Hong Kong subsidiary of a Chinese fund management company to set up in the territory. Shenzhen-based Lion Fund Management is expected to open its office in Hong Kong next.

"I think that's a very good opportunity for the local players to actually start to build offshore, both investment and distribution capabilities," he said. "This is a great opportunity, especially in the next three to five years."

China Asset Management (Hong Kong), a subsidiary of Beijing-based China Asset Management Company, has "identified potential offshore players in the local market to have alliances with, to have maybe possible JVs [joint ventures]… so that we can gain footprints in the regional market," he said.

Ho said Hong Kong subsidiaries of China's fund companies are in a unique position of carving a niche for themselves in terms of their local knowledge of the mainland market, while pursuing opportunities to expand their investment capabilities.

"I think China players will continue to be a niche player compared with the global players because with the investment opportunities in China, you have a universe of over 2,000 local listed companies. You have over 600 China-related listed companies in Hong Kong, plus over a hundred ADRs [Asian Depositary Receipts] Chinese companies," he said.

With that huge investment universe, a local knowledge of the country, the government, the companies and the culture will always be a "competitive edge", he said.

That doesn't mean, however, that China will remain the company's sole focus, he added. "I think, furthermore, we will continue to build our investment and manufacturing capabilities beyond China investment as well."

Lion Global

Gerard Lee, Lion Global Investors

Gerard Lee, Singapore-based CEO at Lion Global Investors, said he looks at regionalisation opportunities "from the perspective of humility".

He noted: "It's a very competitive world today… If you grow up in Singapore, you will really know that you cannot make a living out of serving funds in Singapore. You have to look at Singapore as a base for you to manufacture."

Lee said he also looks at the regionalisation opportunities from the angle of a fund supplier.

"I think the definition of regionalisation has been to sell products only within Asia. While that, I think, has made a good living for most of us over the last two to three decades, what's more important is the ability to manufacture Pan-Asian products and to bring our regional products into the world," he said.

Lion Global has established footholds in the U.S., Europe, Japan, South Korea and China following the appointment of third-party marketers, as reported.

"To use an automotive analogy, I think what regionalisation means to me is to do what Toyota, Nissan and Honda did in the late-'80s, which is to introduce luxury cars into the U.S. luxury car market. Toyota introduced Lexus, Nissan introduced Infiniti, and Honda introduced Acura. They all have different degrees of success," Lee said. "I think what the Asian fund houses have to be able to do is that; to penetrate the markets not dominated by the [global players]."

E-Fund

Charles Wang, E Fund Management (Hong Kong)

Charles Wang, CEO at E-Fund Management (Hong Kong), said one doesn't need to set up offices all over Asia to be considered a regional player.

"You need to know your strengths," he said, adding that Asian fund companies should look at their investment capabilities, as well as sales and marketing expertise, while conducting cost feasibility analyses.

China is still the "most important market in Asia", with the "largest investor base in the region", he said, and it makes sense for companies such as E-Fund to capitalise on their China connection.

"China investors have demand not only for China products, but also for Asian or global products," he said. "So we have developed international, regional investment capabilities."

Having an understanding of the China market makes it "much easier" to do business in Japan, South Korea and Singapore, for example, he said.

Having Hong Kong as an international platform, meanwhile, means E-Fund doesn't necessarily need to "travel to every country in the world", noting that many global investors who are interested in China come to the territory, Wang said

"A lot of people come here, not for a vacation. They are looking for the best managers, the best businesses in China, in Asia," he said. "We value our set-up in Hong Kong. We use our office in Hong Kong to develop our network of businesses in Asia."

BOCHK AM

King Au, Hong Kong-based CEO at BOCHK Asset Management (BOCHK AM), said he believes Asian fund companies should strike distribution partnerships regionally and globally. "It doesn't make sense for us to establish offices all over the world, in the region," he said.

In terms of fund manufacturing, "what we want to bring to our client is a combination of local and global expertise", he said.

HGI

Choy Peng Wah, Harvest Global Investments

Choy Peng Wah, Hong Kong-based CEO at Harvest Global Investments, noted that various Asian fund companies have taken different approaches to growing their businesses.

"I think we all clearly understand our competition. Right in front of us, we see them every day; they've been around in Asia, Hong Kong and Singapore, specifically, for quite a long period of time. But if you look at ourselves in the industry, Asian fund companies, we can see quite a few different models having evolved in the last 10 years," he said.

"If we take the successful Korean manager, they pitch themselves today as the world's specialist in emerging markets, they've expanded into retail businesses, they have the very strategic locations beyond their home market. But first and foremost, they are very successful in Korea. That is going to be one model. If you look at Japan, Nomura and Nikko, in particular, they have completely different strategies. Nikko, through acquisitions. But if you look at Nomura, they've taken a long time, but very successfully, to build up a very, very well-known skill set in covering some of the Asian markets in specific asset classes, and global investors look to them not just as Japanese provider, but an Asian provider."

For Hong Kong subsidiaries of China's fund firms, expansion in the territory is merely a stepping stone, he said. "I don't think Hong Kong is the destination we all chose to be our final destination."

One of the most important opportunities for companies such as HGI is the ongoing developments related to the internationalisation of the renminbi, Choy said.

"Each of us has an opportunity to participate in and develop an asset class that is quite unique, and hopefully the demand for global investments is significant," he said. "That will set us apart, and that will help each of us take the next bold step. Whether we choose to develop a wide range of product, whether we choose to develop through multiple, geographic locations, I think each of the firms probably choose differently, have different strategies."

Branding will play a key part in determining the success of Hong Kong subsidiaries of China's fund companies, Choy said, noting this is generally the case in the asset management industry.

"I don't think you will find, in 10 years, 15 Chinese-heritage managers successfully expanding globally," he said. "There will be a handful, and whether it's going take us a decade or two, time will tell. Hopefully, an opportunity will be there for us, especially with the Chinese asset class."

"Exciting" opportunities

China Asset Management (Hong Kong)'s Ho said the opportunities for the next five to 10 years for China players would be "quite exciting", adding he expects the renminbi to eventually become a global reserve currency.

"We need to see further deregulation of the offshore renminbi market, which has been subtle over the past six to 12 months," he said. "I think the challenge for asset managers is to capture this opportunity."

Ho pointed out that the next immediate opportunity lies with the renminbi qualified foreign institutional investor (RQFII) exchange-traded funds (ETFs) and the increased quota for the RQFII programme. As reported, the China Securities Regulatory Commission (CSRC) added Rmb50 billion (US$7.93 billion) to the previous RQFII programme quota of Rmb20 billion (US$3.17 billion).

"We have seen the RQFII being developed over the past several months. We have seen some of the challengers and opportunity in these types of products, and now we are in the second batch," he said. "Beyond the kind of the [predominantly] bond market RQFII funds right now, we're looking into the ETFs market, which are added opportunities."

Although RQFII funds have generally encountered weaker-than-expected sales in Hong Kong, Chinese fund managers are still confident over the future of the RQFII programme, as reported. The mad dash earlier this year among Hong Kong subsidiaries of China's fund management companies and securities firms to be the first out of the gates with their RQFII funds has produced only a few winners, as reported.

BOCHK AM's Au said he sees the internationalisation of the renminbi as a global opportunity, not just a local one.

"It's not just about Hong Kong, it's global, because look at the U.S. bond market; it's 250% or two-and-a-half times the U.S. GDP [gross domestic product] and yet, China's bond market is less than 15% [of the China GDP]," he said. "China is the second-largest economy in the world, so that means the domestic bond market is very underdeveloped. So that's why the offshore renminbi bond market, to us, offers a huge opportunity, and we look at the renminbi offshore market as a sustainable opportunity."

Lion Global's Lee said success in Asia will be "all about sequencing" of business development plans.

"For those of us who are Asian-owned, I think we have to stage it carefully. From my perspective, looking at the supply side, there are three options. One, it's just to focus on China. We know that China is really very big, we know that RMB [renminbi] will be a reserve currency; the question is not if, but when. Secondly, you ask yourself whether you want to be Pan-Asian. Thirdly, you ask yourself if you want to be global or you want to be like Mirae [Asset Global Investments], that has become a specialist in emerging markets," he said.

To read stories from the main conference of the Fund Forum Asia 2012, click here.

To read stories from the Asian Fund Selection and Distribution Summit of Fund Forum Asia 2012, click here.