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Local fund firms challenged to be more ambitious

By Rita Raagas De Ramos April 25, 2012

Local fund management companies in Asia were generally described by two high-profile panellists at the Fund Forum Asia 2012 in Hong Kong on Tuesday as not ambitious enough to transform themselves into major international players.

CEOs of some of Asia's local fund management companies begged to differ, however. They noted that the ambition is certainly there, but they recognise that the process towards either global or regional expansion will have to be thoroughly mapped out and deliberate.

Shiv Taneja, Cerulli Associates

"Asian asset management companies [AMCs] are not immediately capable of taking on global titans," said Shiv Taneja, London-based managing director at Boston-based research firm Cerulli Associates.

They should first take on a regional role, and then aim to become "strong Pan-Asian fund management companies", he said during a panel discussion on barriers to continued growth in the Asian asset management industry, among other things.

Even that may be a tall order, however, according to Taneja.

"Where brand has become such an important factor in the industry, there's no reason local asset management companies cannot build strong Pan-Asian companies. But I don't see that happening," he said. "They are not ambitious enough."

Gerard Lee, Lion Global Investors

In another panel discussion, on the regionalisation of domestic asset management, Gerard Lee, Singapore-based CEO at Lion Global Investors, said: "Asian-owned AMCs are not ambitious enough, and the reason they are not ambitious enough is because they are distracted or too focused by what is happening domestically."

He added: "Asian-owned AMCs, especially Chinese-owned AMCs, you have enough financial health, you have enough muscles, you should aim higher, you should not just be content with managing RMB [renminbi] assets. You have to manage Pan-Asian assets. Go into the U.S., go into Europe. If you have to buy a company, just buy it."

Lion Global has established footholds in the U.S., Europe, Japan, South Korea and China following the appointment of third-party marketers, as reported. Lion Global is a member of the Oversea-Chinese Banking Corporation (OCBC) Group in Singapore.

To further illustrate his point, Lee said: “Do what Lenovo has done with IBM.” Lenovo completed in 2005 its acquisition of IBM's personal computing division, making it an international information technology competitor and the third-largest personal computer company in the world at that time, according to information on Lenovo’s website.

Lee also made a comparison between Japan’s Nomura Asset Management (Nomura AM), established in 1997, and Nikko Asset Management (Nikko AM), established in 1959. While Nomura AM has chosen to grow organically, Nikko AM has gone the route of acquisitions, he noted.

As reported, Nikko AM, which completed two major acquisitions in 2011, has been laying the groundwork for further growth in assets under management (AUM). In March 2011, Nikko AM announced the completion of its acquisition of Tyndall Investments from the Suncorp Group. In September 2011, it announced the completion of its acquisition of DBS Asset Management from DBS Bank.

The road to success is not easy or simplistic

Choy Peng Wah, Harvest Global Investments

Choy Peng Wah, Hong Kong-based CEO at Harvest Global Investments (HGI), said the road to success is not as easy or simplistic as Lion Global’s Lee suggested. HGI is a subsidiary of Beijing-based Harvest Fund Management.

“Most of us, having the benefit of being in Hong Kong for the past two to three years, have explored the Ucits [Undertakings for Collective Investment in Transferable Securities] platform, with very good support from service providers. But at the same time, having products with short track records and very low assets under management don’t get you the attention of investors, gatekeepers, funds of funds or asset allocators,” HGI’s Choy said. “We need to do a lot more.”

The opportunity to launch renminbi qualified foreign institutional investor (RQFII) funds gave companies such as HGI an opportunity to claim a niche in the Hong Kong market, but the much anticipated products were a disappointment for most of its issuers. A confluence of factors – including the near-simultaneous granting of RQII licences and quotas by China’s regulators, approval of the products in Hong Kong, and launches, as well as significantly lower-than-expected demand – led to generally poor sales. Only a few companies, including HGI, managed to meet fundraising targets for their RQFII funds, as reported.

“Exactly as Gerard pointed out, most of us are distracted,” Choy said, referring to the RQFII products that were launched almost simultaneously in Hong Kong earlier this year.

Highly competitive group

In the case of the Hong Kong subsidiaries of China’s fund management companies, the challenge is to differentiate themselves among their peers, while targeting the same business opportunities.

“In such a short time and space, I don’t think you’ll find another group today that is so highly competitive as the 15 pure asset management companies of Chinese parentage in Hong Kong, not counting the securities-owned asset management companies, that say: ‘We can do good very good stock-picking in the domestic China market. We have busloads of people who can do that',” Choy said. “Is there really so much demand to support such a big competitive group? It is only, after all, one market.”

Choy said introspection is needed when catering to China's market. "What are the investors really looking for? The market itself has to also give you the beta. China, as a market, hasn't given us interesting returns in the last 10 years."

Thus, generating revenues and profits from the China market, or from specialising in managing mainland assets, is a "more difficult, definitely more complex problem" for Hong Kong subsidiaries of fund companies in China compared with the problems experienced by a company such as Lion Global, for example, Choy said.

Singapore, after all, is a "smaller market with less competition", Choy noted, without shirking the reality that, indeed, companies such as HGI have many challenges to overcome.

"There's so much more we need to do, but we are at such an early stage. Some of us are going to make some mistakes. Some of us will hit the jackpot; I'm not even sure what it is. But we will try to make less mistakes and have more success," he said. "A couple of us will succeed and will be very big simply because the domestic market generates a lot of cash."

For sure, acquisitions are being considered, but feasibility, opportunity and the right timing need to be present, according to Choy.

"The inorganic model that you suggested, I am sure, is on the mind of all of my peers," he said, referring to the acquisitions suggested by Lion Global's Lee. "But at what time and what model? Do you acquire distribution or manufacturing, or do you acquire a brand name that you can build upon that has synergy with yours, or do you just get absorbed by a bigger brand?"

He noted: "It wouldn't be impossible for a Chinese asset manager today to acquire a firm that's two or three times our size. But when you do that, there will be significant integration challenges."

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