Distribution & Marketing

Tech disruption, passporting driving Asia fund distribution changes

Lawyer Erwin Shustak assesses the current landscape and opportunities for fund groups marketing into Asia or thinking about expanding into the region

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Sophisticated, worldwide investors require transparency and consistency to understand and compare investment opportunities, their fundamentals and risk exposure.

The trend in Asia-Pacific has been toward passive and exchange-traded funds, and away from active products since only objective and consistent analytics allow investors and managers to compare fund alternatives. The continuing growth of these passive products will continue to put downward pressure on fees as performance becomes more benchmarked and transparent.

Asia-Pacific investors increasingly seek exposure to other markets, especially the US, in a bid to increase diversified investing and minimize the effects of local and regional volatility. Equally, there has been a rise of inbound investing in China as global investors seek unique opportunities in its economy and a share of its huge domestic market.

Private wealth continues to grow across Asia-Pacific as its economies mature. In Australia and New Zealand, for example, retirement investing remains the driving force in investment management. Retirement investing will continue in the region, requiring more clarity and transparency and acceptable risk exposure as well as excellent client service.

Another factor that will impact fund offerings in the region are cross-border initiatives such as the Asia Region Funds Passport, a region-wide initiative led by Australia, New Zealand, the Republic of Korea and Singapore.

The Asia Region Funds Passport will provide a common framework to facilitate cross-border marketing of managed funds across participating economies in the region. This will encourage more cross-border marketing of funds; increased demand for clear comparisons of these funds and an objective, consistent framework of analytics for investors to gain exposure to equities in different countries while able to assess the fundamentals and risks of each investment.

Fund distribution in the Asia-Pacific Region

Despite a growing demand for Asia-Pacific focused funds, fund distribution in the region remains highly fragmented with no single channel having dominance in every market. In Hong Kong and China, retail banks dominate the sale of fund products, while securities firms have the bulk of market share in Korea. In Japan and Korea, household names such as **Nomura** and **Samsung** dominate the distribution landscape. In Australia, wrap platforms' or master trusts are largely sold through independent advisers. But there is also a significant and growing group of 'self-managed' investors.

Online platforms continue to lead the market in terms of service and innovation as consumers are attracted to the investment returns offered, as much as the ease and convenience of transacting with a brand they know and trust. This continued focus on returns, service and the customer experience will likely evolve into a paradigm shift' among asset managers, who will increasingly need to consider the customer experience as part of their investment offerings. Younger investors are used to online interfacing and expect excellent service and top technological innovation, so the client experience will continue to drive the market leaders.

The recent introduction of fund products sold through online platforms such as **Alipay**/**Taobao** has disrupted traditional distribution channels in China. Many reports note the high growth experienced by online distributors over the last 12 months, driven by the high yields offered by these funds, relative to other financial institutions. The real challenge for continued growth of online funds, however, will be the ability to offer more sophisticated products to a developing market. The Asean initiative, and others like it, will hasten the proliferation of cross-border fund offerings.

The US and Asia-Pacific

As the economies in the region grow and mature as a driving force, their governments place a high priority on trade and cooperative investment agreements, which are seen as critical building blocks of international relations in the region. The challenge for the US is to remain not only economically relevant but actively engaged in the region, or risk that other countries shape regional economic rules and ways that work against, not for, US interests.

The Obama administration's primary achievement in the region was the Trans-Pacific Partnership (TPP), often referred to as the "gold standard" free trade agreement, involving ten countries. However, President Trump's decision to withdraw from the TPP and pursue a trade policy based on bilateral "bargaining" may reduce the US' role in the region and its ability to influence regional economic alliances and rules in beneficial ways.

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