WHITE PAPER

PARTNERING FOR SUCCESS IN ASIA

Tie-ups, collaborations, joint fund management—whatever they are called, partnerships are gaining traction in the Asian fund industry, and look to be the name of the game for the foreseeable future.

To be sure, "partnerships" encompass many definitions, and may even mean different things to different fund houses. In the institutional space, for instance, partnerships involve co-investments between institutions and asset managers, especially in alternative investments, as well as co-investments between or among institutions (for example, two sovereign wealth funds teaming up to invest in a property). In these contexts, partnerships align interests and involve skin in the game or bigger risk-taking that is minimized by sharing of risk among partners.

In the mutual fund segment, partnerships typically revolve around product development and distribution and could include multiple methods such as subadvisory, technical advisory, or joint fund management, and, in more nascent markets such as Malaysia, Thailand, and the Philippines, master-feeder and fund-of-funds (FoF) arrangements. This white paper focuses on product partnerships among asset managers, given their rising popularity and numerous advantages.

Partnerships and Solutions

If "partnerships" is the latest retail industry buzzword, "solutions" must be its close cousin. Cerulli has heard the word "solutions" thrown about in our conversations with industry players. To us, it essentially means distributors are no longer merely product pushers, and asset managers no longer only product providers. Instead, there seems to be a greater focus on understanding end-investors' needs and preferences more holistically, and targeting offerings to meet those needs.

For asset managers, this implies having an arsenal of products across multiple asset classes. Indeed, diversification lies at the heart of product partnerships. This has become more crucial amid choppy and unpredictable markets, and to align with investor preferences. Simply put, fund houses can no longer be one-trick ponies when it comes to investment strategies.

Summary

Product partnerships are gaining traction across Asia, as fund houses wake up to the fact that they can no longer be a one-trick pony in terms of investment strategies. Having a broad suite of products matters in volatile and unpredictable markets, and is necessary to meet ever-changing investor needs. However, not all firms can excel in everything—which is where partnerships come in.

Key Points

- Product partnerships—such as subadvisory, master-feeder, and fund-of-fund arrangements—have multiple advantages: they leverage one or both parties' investment strengths, and are cost-effective measures to test a market without or before putting retail personnel on the ground.
- In North Asia, we expect more subadvisory agreements between global or regional firms and Asian firms, and between Asian firms.
- In Southeast Asia, the master-feeder structure will likely remain popular.

Yet, not all firms can—or should—excel in every asset class or investment geography. After all, specialization is often prized in investment management, especially for institutional investors, less so while catering to the retail segment. How then should managers bridge capability gaps? The answer may lie in product partnerships.

Why Collaborate?

There are numerous advantages to seeking partners on product development, as we explain below.

1. Partnerships leverage each firm's investment strengths. Engaging a subadvisor, for instance, helps the fund firm plug investment capability gaps, learn, and broaden its product offerings. In some ways, the manager is akin to an institutional investor that outsources to external fund houses with the intention to learn—but, unlike most large institutions, not necessarily with the ultimate aim of developing internal expertise in that particular asset class or investment geography.

Take, for example, a recent tie-up between E Fund Management (Hong Kong) and Taiwan's Yuanta Securities Investment Trust, announced in April 2017. E Fund appointed Yuanta as its technical advisor for an inverse exchange-traded fund (ETF). Yuanta is a leader in the leveraged and inverse ETF space, with a variety of products tracking local, U.S., and Chinese equities, as well as commodities, while this is the first time E Fund is developing an inverse ETF.

Exhibit 1: Product Partnerships in Asia, July 2016 through May 2017

Date	Company A	Company B	Product(s)	Details
March 2017	E Fund Management (Hong Kong)	Yuanta Securities Investment Trust	E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product	E Fund Management selected Yuanta as its technical advisor for the E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product, listed on the Stock Exchange of Hong Kong.
March 2017	Eastspring Investments	Kasikorn Asset Management	K Asia Fixed Income Fund	Kasikorn will manage the fund's Thai fixed-income portion, while Eastspring will invest in a portfolio of Asian (ex-Thai) local currency bonds and investment-grade credits. The fund aims to achieve a target return between 3% and 4% per annum in THB terms.
March 2017	BNY Mellon Asset Management	Maybank Asset Management	BNY Mellon Asia Rising Stars Fund	BNY Mellon will manage the Japan small-cap portion, while Maybank will manage the Asia ex-Japan small-cap portion. The fund is currently targeted at high-net-worth investors in Singapore and Hong Kong, as well as retail investors in Singapore.
March 2017	UOB Asset Management (UOBAM)	T. Rowe Price	T. Rowe Price Global Technology Equity Fund	In late March 2017, UOBAM invested the assets of its United Global Technology Fund into T. Rowe Price's strategy.
February 2017	Korea Investment Management (KIM)	State Street Global Advisors (SSGA)	KIM SSGA Global Low-Volatility Fund	Targeted at Korea's retail investors, the fund is managed by SSGA and distributed in Korea through KIM's distribution partners. It is the second product launched since KIM and SSGA entered into a subadvisory arrangement in 2016 (the first was a multi-asset fund, the Korea Investment Management SS Global Asset Allocation Trust, launched in June 2016).
February 2017	Korea Investment Management (KIM)	T. Rowe Price	Target-date fund	The multi-asset fund invests locally and internationally. Fund investors can set their expected retirement year between 2020 and 2045, at five-year intervals.
October 2016	UTI International	Emirates NBD Asset Management	Emirates Islamic India Equity Fund	UTI will manage the fund, which aims to expand Emirates NBD's global portfolio offerings to include Shariah-compliant Indian equities.
July 2016	ICBC Credit Suisse	WisdomTree Investments	Exchange-traded funds (ETFs) tracking the S&P China 500 Index	The two companies will jointly launch and market ETFs tracking the S&P China 500 Index. A Luxembourg-domiciled UCITS ETF marks the start of the global partnership.

Analyst Note: List is not exhaustive.

Sources: Cerulli Associates, The Cerulli Report - Asian Distribution Dynamics 2017

2. Product partnerships are a cost-effective way for the capability provider to test a market without or before putting retail personnel on the ground. In Korea, for instance, Capital Group, T. Rowe Price, and Vanguard Investments have partnered with Samsung Asset Management, Korea Investment Management (KIM), and KB Asset Management, respectively, to develop target-date products. The foreign firms have little or no retail presence in Korea, but are among the largest target-date fund managers in the United States. Given Korea's graying demographic and general lack of retirement-focused retail funds, target-date products fill a potential gap, although much investor education will likely be needed to spur demand.

   KIM also began to partner with State Street Global Advisors (SSGA) on a subadvisory basis in 2015, and has since launched two products managed by SSGA, most recently a global low-volatility fund.

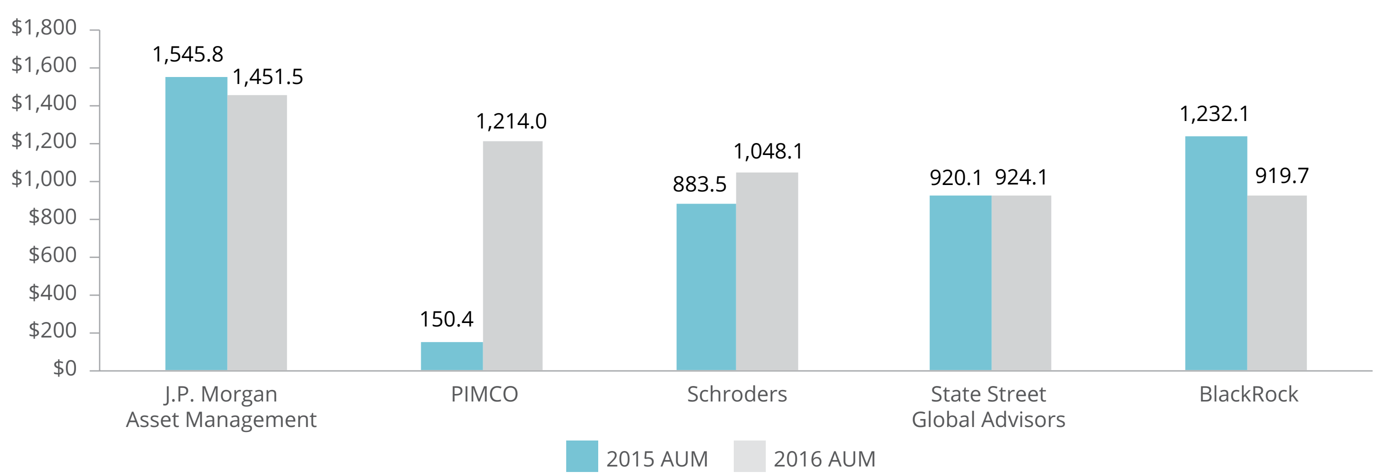
   Southeast Asia is another region in which master-feeder, FoF, and subadvisory arrangements are recommended for foreign firms that want to tap assets without setting up an onshore presence. This has partly to do with local regulations: for example, direct offshore funds are still not allowed in Indonesia and the Philippines; in Thailand, they have recently been allowed but are subject to capital gains taxes, from which locally domiciled funds are exempt.

   Such partnerships are generally win-win because the foreign player fills an investment capability gap that the local partner lacks and seeks, while tapping the latter's distribution networks—which would take the foreign manager years to build if it sets up a local presence on its own.

3. More pertinent to Southeast Asia, the foreign manager will not be viewed as a direct competitor to the local players. This is an advantage not extended to foreign managers with on-the-ground presence in the market. This is why, for example, Thailand's largest domestic fund houses would rather work with the likes of J.P. Morgan Asset Management and Schroder Investment Management than Aberdeen Asset Management, which has retail operations in the country.

4. Taking the master-feeder route, in particular, in Southeast Asia allows the foreign player to pitch the same fund to more than one local manager in the same market—or across multiple markets. PIMCO exemplifies a firm that has found fundraising success thanks to one product sold in more than one market, and by more than one partner. Its GIS Income Fund serves as the master fund for TMB Asset Management's Global Income and Krungsri's Global Collective Smart Income funds in Thailand, and Affin Hwang Asset Management's Global Income fund in Malaysia. In fact, PIMCO's GIS Income Fund catapulted the firm to second place by master fund AUM in the region last year, behind J.P. Morgan. This was largely helped by a low base and TMB's fund, which garnered THB 30.2 billion (US$ 841.4 million) in net inflows last year, just six-plus months post-fund launch.

Exhibit 2: Top-Five Master Fund Managers in Southeast Asia by Assets Under Management, 2015–2016 (US$ millions)



Analyst Notes: Total AUM from Malaysia, Thailand, and the Philippines, where relevant.
Source: Cerulli Associates, The Cerulli Report - Asset Management in Southeast Asia 2017

More Partnerships Likely

Cerulli expects product partnerships to gain further traction, in both North and Southeast Asia, as asset managers identify investment gaps and partners that can fill them. Still, the type of partnerships and investment strategies will likely vary in the two sub-regions.

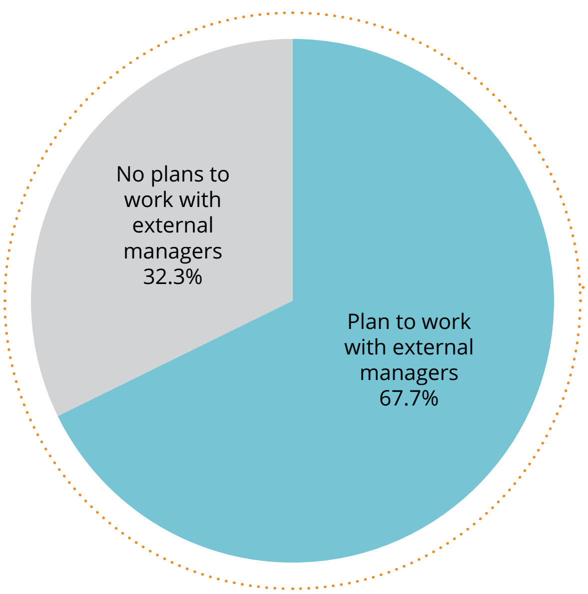
In North Asia, we expect more subadvisory agreements between global or regional firms with Asian firms, and between Asian firms. Possible strategies of interest will naturally depend on each partner's needs and strengths, but if recent tie-ups are any indication, these may include global, regional, and single-country equities and fixed income; passives; and alternatives.

For example, some large homegrown Asian companies are touting their single-country and Asian capabilities to foreign players in a bid to venture beyond home ground. This is unsurprising, as the firms—particularly the largest Japanese, Chinese, Korean, and Taiwanese fund houses—have likely reached a saturation point in raising assets domestically and now increasingly eye overseas opportunities. For example, Korean players are attempting to enter into partnerships with global firms (and vice versa). Cerulli understands some are also keen to collaborate with Indian managers.

In Southeast Asia, the master-feeder structure will remain popular. Cerulli's proprietary survey of fund houses based in Malaysia, Thailand, and the Philippines conducted earlier this year shows that in aggregate, about one-third of respondents plan to engage external managers on new funds over the next 12 to 18 months. In all markets, a majority chose master-feeder funds as the preferred route. This also works to foreign managers' advantage, because a master-feeder fund is one-to-one and hence there is less dilution of assets compared to a FoF, which invests in more (and competing) products.

In Indonesia, where master-feeder funds and FoFs are not allowed, the only opportunity for global managers to work with local players currently is via subadvised Shariah products. Mandiri Manajemen Investasi was the first Indonesian manager to partner with a global firm, J.P. Morgan, on a global equity Shariah fund. Cerulli expects more such deals, although it would be wise for foreign players to target the larger domestic firms with less experience in managing regional or global Shariah investments.

Exhibit 3: Southeast Asian Asset Managers' Plans to Work with External Managers for New Funds Within the Next 12 to 18 Months, 2017



Top-Five Strategies/Geographies of Interest

Malaysia	Thailand	Philippines
Global/developed market equities	Multi-asset strategies	Global/developed markets
Emerging market equities	Emerging market equities	U.S.
Sector equities (*e.g.*, global healthcare, global technology)	Sector equities (e.g. global healthcare, global technology)	Asia ex-Japan
Others	Chinese equities	Emerging markets
ASEAN equities	Japanese equities	ASEAN

Analyst Note: Based on survey conducted between January and April 2017. Data include responses from Malaysian, Thai, and Philippine managers. Malaysian managers were given equity strategy options only, while Philippine managers were given broad geographic exposure options.

Source: Cerulli Associates, The Cerulli Report - Asset Management in Southeast Asia 2017

There are also clear investment strategies in which local fund houses in Southeast Asia seek partnerships: global/developed market equities, emerging market equities, and thematic equities (other strategies vary by market). These are areas the domestic houses lack—and are unlikely to develop—expertise in over the short to medium term, if at all.

In conclusion, product partnerships look to be the next trend that will sweep Asia's funds industry. This is especially so as fundraising gets tougher amid volatile markets and investor conservatism, and also as scale becomes ever more crucial for survival. Partnerships are also much easier and potentially cheaper considerations than inorganic growth through mergers and acquisitions or joint ventures. Breakups, if they happen, will likely also be more amicable and less painful. The key, however, is to find the right partner—for example, one that does not stray too far from the other's investment philosophy. ◆

About Cerulli's Asian Research

Cerulli has been analyzing asset management trends in the Asia-Pacific region for more than a decade. Retail research coverage includes market sizing and projections, product and distribution trends, regulatory developments, fees and profitability, and funds passporting. Institutional research includes market sizing and projections, trends in institutional investment, outsourcing opportunities, external manager selection, and fees. Key markets covered are Australia, Japan, China, Hong Kong, Taiwan, Korea, India, Singapore, Malaysia, Thailand, Indonesia, Philippines, and Vietnam.