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Casey Quirk by Deloitte helps clients develop broad business growth strategies, improve investment/product appeal and growth prospects, evaluate new market and product opportunities, and enhance incentive alignment structures. Our unparalleled industry knowledge and experience, detailed proprietary data, and global network of relationships make Casey Quirk by Deloitte a leading advisor to the owners and senior executives of investment management firms in the world.

Introduction

The Asia-Pacific region has long been a major market for asset managers: Global firms based in Europe and North America, as well as asset managers based in the region, have played a role in shaping demand from the region's investors, which now hold more than US\$9 trillion in assets managed by third parties. Additionally, Asia-Pacific asset management revenues grew twice as fast as those in Europe and North America between 2009 and 2013, attracting even more attention from asset management firms hungry for organic growth.

Our management consulting work in the region, however, indicates that Asia-Pacific is not so much emerging as it is evolving, and, consequently, managers who seek to benefit from the region's continued growth will need a new playbook. Previously successful growth strategies for asset managers in Asia-Pacific will become less effective.

Our premise is as follows:

- Buyer demographics are changing. Legacy segments that asset managers traditionally prospect will grow more slowly, while a set of investor types less covered will power the regional marketplace's future growth.
- Product demand will evolve. Product revenues are shifting away from traditional domestic, single-country strategies, as well as toward local vehicles.
- Successful players in Asia-Pacific, local, and global will retool their approach. Asset managers who realign their product offerings, distribution focus, and business management practices will grow faster than other competitors in the region.

All AUM and revenue projections in this whitepaper are expressed in U.S. dollars, net of distribution tolls, and driven by a proprietary demand model, which forecasts future net revenues, by investment strategy and delivery vehicle, for 63 investor segments across 14 Asia-Pacific countries. The model relies on Casey Quirk's proprietary surveys of professional buyers and intermediaries throughout the region, and tracks revenue growth from three sources:

1. Shifts in allocation away from benchmark-oriented products
2. Assumptions for capital appreciation
3. Net new flows into market segments

Many exhibits use a metric called *revenue opportunity*, which includes management fees from money in motion: Both net new flows and manager turnover.

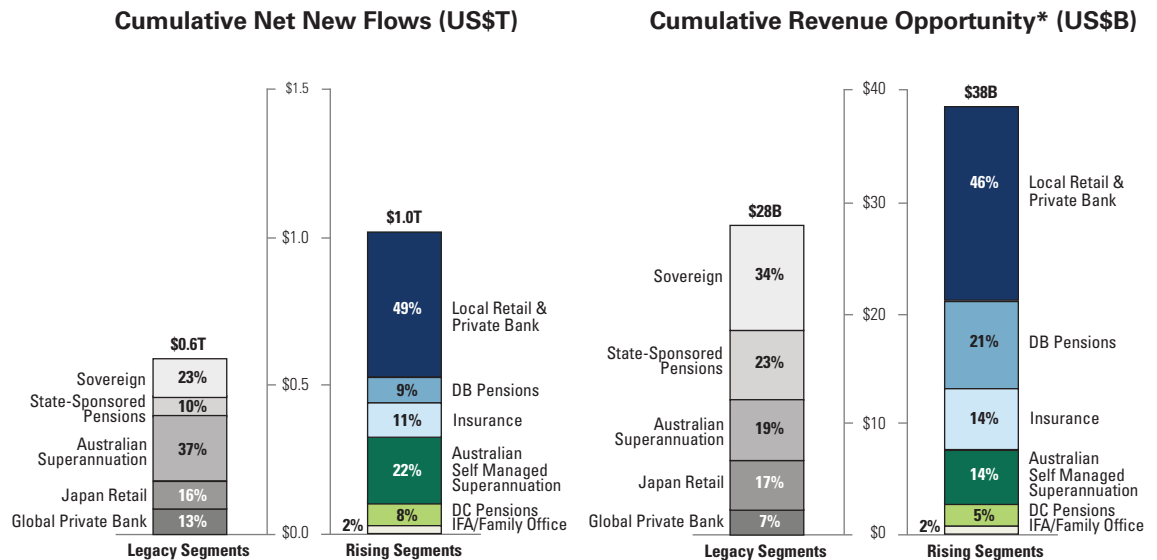
Changing Buyer Demographics

Historically, growth and revenues in Asia-Pacific AUM largely have been driven by a select group of investor segments: Sovereign funds and large national pension systems, global private banks, Japanese retail investors, and Australia's compulsory-savings superannuation system. These segments still account for the majority of AUM at year-end 2013.

Going forward, however, revenues from a new group of rising client segments will grow at a much faster rate. These investors will account for nearly 60% of Asia-Pacific asset management revenue growth through year-end 2018, after which these rising investors will represent the majority of Asia-Pacific asset management revenues.

Exhibit 1

Asia-Pacific Asset Management Growth Metrics by Investor Type, 2014-2018E



*Note: Revenue opportunity includes fees from manager turnover and net new flow. Source: Casey Quirk by Deloitte Analysis

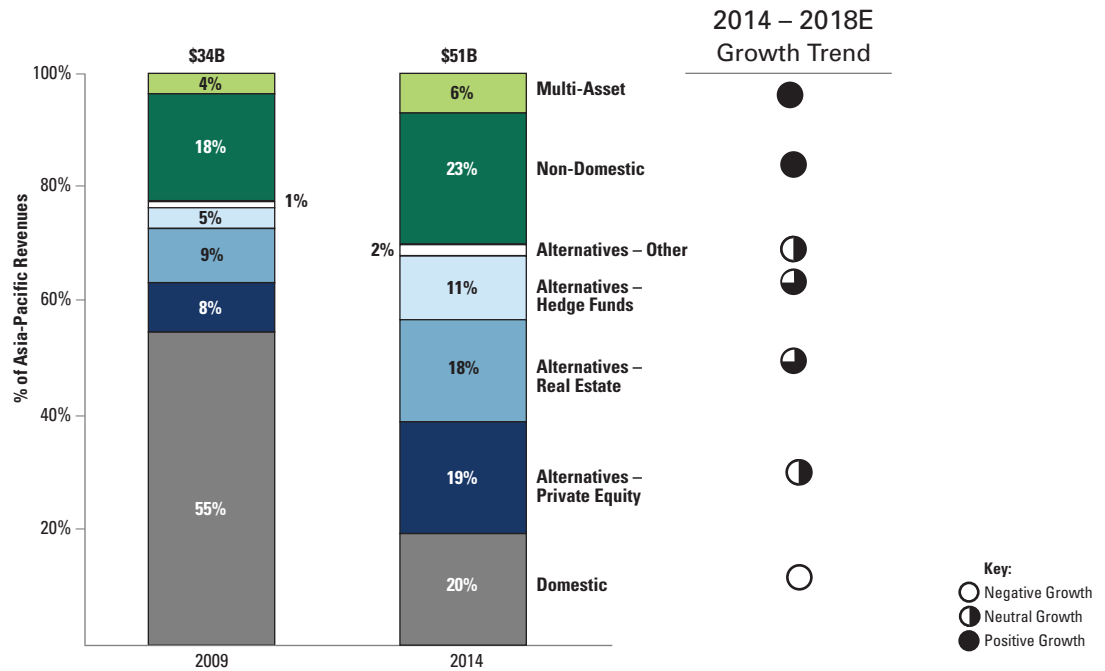
Three key trends are shifting revenue opportunity from legacy to rising client segments:

1. *Rising sophistication among larger asset owners.* Large asset owners and professional buyers in the region are now well-covered by both asset managers and global consultants, leading to hyper-competition and increased fee pressure. Increasingly, large sovereigns and national pension funds represent lower-margin prospects, particularly for investment strategies with scarce capacity. While more fragmented segments—local private banks and Australian self-managed super funds, for instance—may be costlier to address, fewer competitors have invested in them, and fee pressure has not yet fully manifested, raising the revenue opportunity.
2. *Insourcing and outsourcing.* The region's largest asset owners, who define many of the legacy segments, are beginning to manage more of their own assets, insourcing all but the most exotic or capacity-constrained strategies. Conversely, rising segments—local retail banks, for instance—lack the size to pay for internal asset management skills, and increasingly seek help from external asset managers, both global and local.
3. *Regulators.* Regional regulators have applied pressure to national pension systems, particularly in Australia, given their compulsory nature. Yet, regulators actually have encouraged the growth of rising segments, usually by creating rules that encourage the growth of new capital pools, such as locally domiciled defined contribution schemes.

Evolving Product Demand

Exhibit 2

Asia-Pacific Asset Management Revenues by Investment Strategy



Source: Casey Quirk by Deloitte Analysis

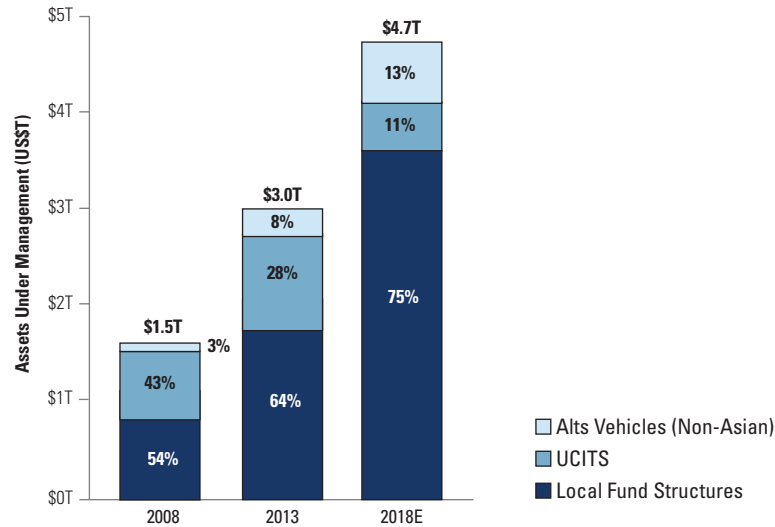
Changing buyer demographics are transforming product demand in the Asia-Pacific asset management marketplace. Since 2009, alternative investments, global, and regional portfolios, and multi-asset propositions have gained share at the expense of domestic, single-country, long-only equity and bond portfolios. While locally focused strategies still represent half the region's assets under management, they only account for 20% of the local industry's net revenues.

Asia-Pacific investors, like their counterparts globally, are showing greater demand and fee tolerance for investment strategies characterized by:

- High-conviction investment styles
- Objectives tied to delivering returns at a certain volatility range, not a conventional benchmark
- Access to unique, hard-to-replicate assets
- Access to unique, less-correlated risk factors

Exhibit 3

Asia-Pacific Fund AUM by Regulatory Structure



Source: Casey Quirk by Deloitte Analysis

Perhaps more striking is the steady erosion of Asia-Pacific fund assets domiciled outside the region, particularly into European UCITS structures, which will see their market share of regional packaged-fund assets continue to drop precipitously. Several trends are encouraging a shift toward locally domiciled funds:

- *Local product development.* Products designed with European buyer needs in mind increasingly translate less well to an increasingly sophisticated Asia-Pacific buyer base, whereas locally developed funds designed from locally-based product development processes resonate well.
- *Changing buyer preferences.* The rising segments described in the previous section have a stronger aversion to foreign-domiciled funds.
- *Regulatory concerns.* Many local intermediaries across Asia-Pacific express a higher degree of comfort with local products with clear approval from local regulators—presumably not only because of reduced headline risk if investor objectives are not met, but also due to confusion over details of existing passporting agreements.

A clear conclusion is that global managers should not count on Asia-Pacific assets to help amortize the costs of a large UCITS platform in Europe. On the other hand, an eventual Asian passport, crucially one that includes the mainland Chinese market, has better chances of success, largely because it will promote managers with locally based product development and management functions.

Three Pillars for Asia-Pacific

Revenue growth in Asia-Pacific asset management for the next five years will accrue to asset management firms that can bring non-traditional, non-domestic investment strategies to the region's faster-growing segments of professional buyers. Both global asset managers with regional operations, as well as local asset managers with global aspirations, will compete for this business.

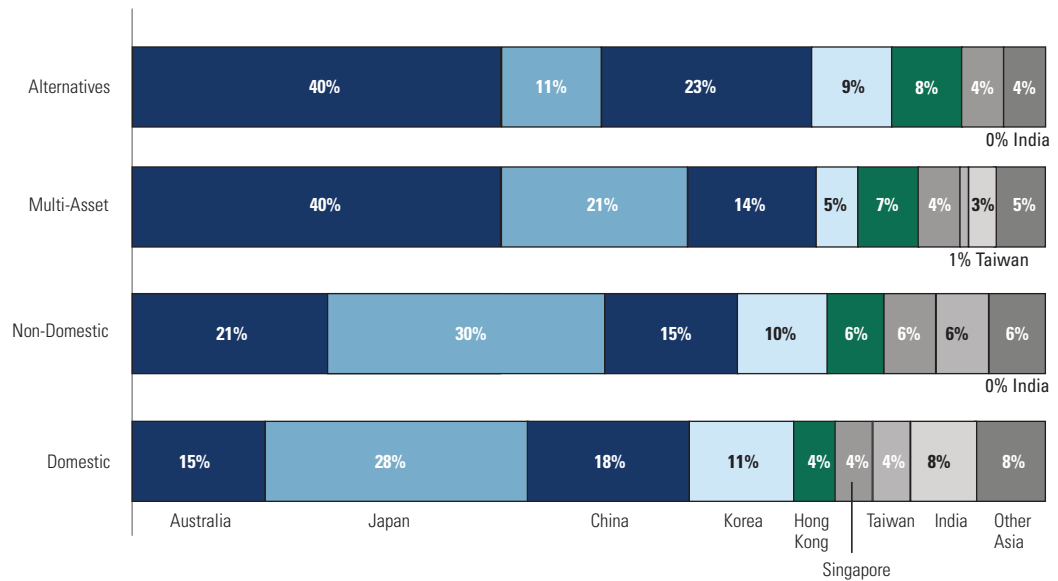
- *Global asset managers* will have advantages with an investment engine already tuned, in many cases, to the regional shifts in product demand (which reflect global norms). But in turn, they often have poor or non-existent coverage of the rising client segments.
- *Local asset managers* face the opposite challenge. They have strong local distribution coverage (at least in their home nation, if not regionally), but limited investment expertise in higher-fee, higher-demand investment strategies.

Successful players in Asia-Pacific asset management will design their businesses around three key pillars:

1. Geographic focus prioritized by opportunity. To date, global asset managers have focused on covering the region's sovereigns and global private banks, legacy segments that encourage a "broad and shallow" resourcing approach. Conversely, local asset managers have remained focused on a single geography (if not the single captive channel of a parent bank or insurer). Going forward, successful firms will align resources with a select set of geographies that represent the highest revenue opportunities for their particular competitive advantages.
 - *Global asset managers* increasingly will focus resources on the Asia-Pacific geographies that show greatest demand for their most competitive products. Several other factors also will drive geographic prioritization—the existing distribution footprint, regional partnerships with distributors, legacy operating infrastructure—but product demand will rank among the most salient, given the distinctly different demand across countries for various investment products.

Exhibit 4

Share of Cumulative Asia-Pacific Asset Management Revenues by Country and Investment Strategy Type, 2014-2018E



Source: Casey Quirk by Deloitte Analysis

- Local asset managers* can address geographic focus by more aggressively developing investment strategies that appeal to investors outside their home country. Two factors drive this opportunity prioritization. The first centers on product development, and the newer capabilities a local asset manager can capably develop. The second hinges on the local asset manager’s regional relationships—the other Asia-Pacific countries in which the firm (or its parent) has distribution or talent acquisition advantages.
- 2. Engagement models designed for faster-growing “rising” client segments.** Segment prioritization must achieve a balance between retaining clients in the larger, if less lucrative, traditional buyer segments, while acquiring clients in the segments that represent more of the marketplace’s forward revenue opportunity. Again, global and local asset managers targeting the Asia-Pacific region will approach this differently.

Exhibit 5

Asia-Pacific Asset Management Cumulative Net New Flows by Client Segment (US\$B), 2014-2018E



Source: Casey Quirk by Deloitte Analysis

- *Global asset managers* will maintain or reduce the centrally housed generalist resources typically applied to “marquee” relationships with regional sovereigns and national pension schemes, instead investing in specialist resources, housed within target geographies and dedicated to building deeper relationship among buyers in the most relevant “rising” segments. Investments in talent required to support country-specific and channel-specific engagement models will be critical.
- *Local asset managers* already enjoy close proximity to many rising segments. What they lack are best practices coverage and content standards that global asset managers increasingly will deploy in the region. Successful local players will upgrade collateral, improve coverage frequency, deploy more sophisticated local sales professionals and begin using local product specialists—matching the competitive standards global asset managers will bring with their increased segment-specific focus.

3. Innovative operating models. A new focus on more fragmented and local opportunities within key geographies and rising target segments in Asia-Pacific will lead asset managers to redistribute, if not add, locally deployed resources throughout the region. This will tax the existing operating models of both global and local rivals in the region’s asset management marketplace. Both types of competitors will need to evolve, although in different ways.

- *Global asset managers* will need to delegate more functions to regionally deployed teams, including product development, marketing, and talent management. Local buyers will increasingly favor global asset managers that have investment resources in the region—at least product specialists for global or alternative products, if not portfolio managers. Devolving these functions will create operational risks—a more complicated matrix structure of governance likely becomes more necessary for decision-making and strategy—but the end result will create improved client engagement required to compete with local players.

Exhibit 6

Scorecard for Global Asset Managers' Asia-Pacific Operating Models

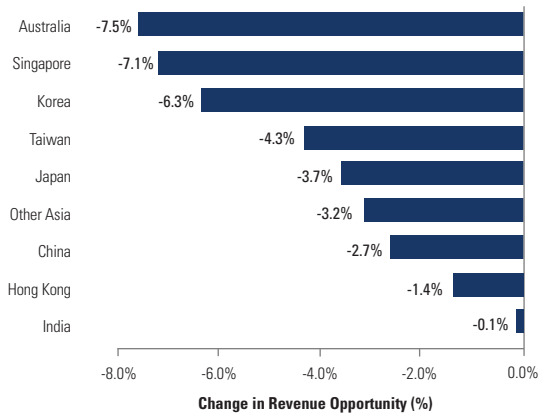
Investments	Distribution	Business Management
<ul style="list-style-type: none"> ✓ Differentiated product aligning with shifting local buyer demand for global, non-correlated offerings ✓ Strong philosophies and processes providing investors with repeatable paths to achieving desired outcomes ✗ Lack of local manufacturing ✗ Gaps in on-the-ground product specialists, limiting ability to support investments and impact local investors ✗ Partner relationships around local product and local expertise 	<ul style="list-style-type: none"> ✓ Distribution organization built around global best practices ✓ Technically proficient distribution professionals experienced in consultative, application-based sales ✗ Coverage plan focusing “mega,” global segments misaligned with high revenue rising segments ✗ “Suitcase” coverage approach not preferred by local investors searching for local language skills and regionally customized marketing materials ✗ Well-defined partnership for specific, prioritized segments 	<ul style="list-style-type: none"> ✓ Globally competitive, well-staffed HR, Finance, Legal, etc., departments ✓ Experienced product development strategies ✗ Matrix reporting structures creating confusion and misaligned objectives ✗ Global decision-making rights not aligned with empowering local expansion ✗ Well-defined parameters and expectations for both sides of the partnership

Source: Casey Quirk by Deloitte

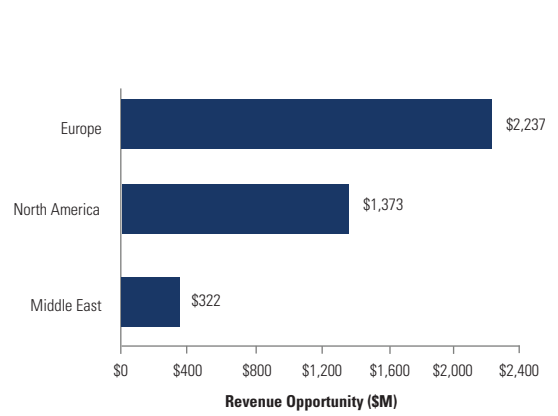
- *Local asset managers* will evolve deploying one, if not both, of two strategies. The first is defensive: Local players that can help their clients globalize their portfolios will maintain their average wallet share of each client, and improve long-term retention metrics, particularly in certain geographies. The second is proactive: Many local asset managers will find themselves able to develop regional, emerging market, or alternative asset management capabilities that investors in other regions will seek for their increasingly global portfolios. Meeting this opportunity will require not only developing investment products that fulfill demand for other investors, but also meet global competitive expectations in terms of process and reporting. Additionally, local asset managers in Asia-Pacific seeking clients outside the region will have to invest in client engagement models that support a close relationship.

Opportunities for Local Asia-Pacific Operating Models

Share Loss of Local Strategies in Asia-Pacific
By Revenue Opportunity, 2013 vs. 2018E



Asia-Focused Strategy Cumulative Revenue Opportunity
For Non-Asia Markets, 2014E – 2018E



Source: Casey Quirk by Deloitte Analysis

The real opportunity presented by Asia-Pacific over the coming five years is for fund managers to lay the ground work for truly meaningful growth from the region in the post-2020 decade. We demonstrated in this paper that Asia-Pacific’s most successful managers will spend the next five years deepening local capabilities, branching out beyond legacy buyers, and introducing more relevant investment strategies. In five years’ time, these same managers will be in an exceptionally strong position to pursue new opportunities in the region’s growing funded retirement systems, particularly China’s.

