



THE FUTURE OF ASSET MANAGEMENT IN ASIA



FLEISHMANHILLARD

Executive Summary



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After three years of our well-received *The Future of Asset Management in China* report, this year we are glad to expand our industry-pioneering research to include the Hong Kong SAR, Singapore and South Korea.

Despite continuous market volatility in 2021 and in the first quarter of 2022, Asia continues to be an epicenter of growth for international asset managers, with mainland China presenting opportunities for expansion amid an upsurge in the number of affluent investors in the region. The launch of the first-ever onshore retail fund by an overseas player in 2021 indicated a significant breakthrough in the liberalization of mainland China's asset management industry, while the introduction of a private pension scheme in April 2022 will create a new battleground for overseas players in the future.

Elsewhere in the region, the Hong Kong SAR and Singapore continue to serve as hubs for asset management. The Hong Kong SAR's unique proximity to mainland China and the growth of family office and wealth management offerings both in the city and Singapore provide much-needed market impetus. South Korea has seen a huge surge of metaverse-themed exchange traded funds (ETFs) as the market continues to flourish with innovative investment products, with the Seoul Metropolitan Government announcing that it would become the first major city to enter the metaverse.

Environment, social and governance (ESG) has become an important agenda item. Asset managers are increasingly required by regulators and investors to demonstrate commitment in this space. Growing concern about disclosure, data sources and standardization will push asset managers to place ESG high on the agenda in the boardroom.

So, what does it take for overseas asset managers to up their game in Asia?

Credibility and Performance: Investors hold overseas asset managers to high standards of credibility and performance. With ongoing global market volatility and uncertainty, investors are looking for a safe haven to manage their financial wellness. Overseas managers need to think through how they can accommodate investors' appetite by delivering uncorrelated alpha with well-timed, top-notch investment solutions drawing upon a variety of global expertise and experiences.

Transparency and Communications: In addition to transparency in fees and performance, investors are also looking for more from asset managers on their corporate values, purpose and commitment in Asia via different storytelling techniques across multimedia channels.

Invest Well and Do Good: ESG is now a main focus of many corporates. Asset managers need to disclose their responsible investment methodologies and approaches, where they gather their data and how they engage with listed companies with below-par governance. Delivering returns on investment funds is no longer good enough: investors want to invest well and do good for society and the environment at the same time.

*In addition to this report, we have also published our fourth edition of *The Future of Asset Management in China* report to go into specific insights in mainland China. I hope you enjoy the report and use our unique insights and findings to guide you in market entry communications in the ever-evolving Asia region.*

Asset Management Landscape in Asia





Asia

FRAGMENTED REGION WITH STRONG GROWTH POTENTIAL



The asset management industry in the Asia region exhibited year-on-year growth of 16% in the first nine months of 2021, up from 11% in the same period of the previous year, thanks to double-digit growth in mainland China, Singapore and India¹. That said, this growth trajectory slowed somewhat in Q1 2022 due to the Ukraine-Russia conflict and pandemic lockdowns in mainland China and the Hong Kong SAR.

Sustainable investing and products that consider ESG factors continue to draw attention in Asia, with asset managers committed to supporting decarbonization and net zero carbon emissions. A total of 161 new sustainable investment funds were launched in the first nine months of 2021², demonstrating strong demand for sustainable investment in the region. Investors are also increasingly focused on the social value of investment products and expect this to be measured and communicated.

ETFs continued to record strong growth in Asia, with asset under management (AUM) standing at US\$560 billion by the end of 2021, up from US\$437 billion at the end of 2020³. Exchanges and regulators in the Hong Kong SAR, Singapore and Australia have been taking steps to promote growth in the ETF industry, with asset managers being encouraged to develop local products in Asia. In particular, assets allocated to actively managed ETF strategies last year in Asia Pacific ex-Japan stood at US\$51.25 billion, a nearly 19% increase over US\$43.12 billion in 2020⁴.

Robo-advisory is also beginning to take shape, with a few leading regional players continuing their expansion phase to offer customized portfolio advice to investors. That said, the fund inflows to these robo-advisory platforms is still at a nascent stage due to limited product offerings and investors' preference for human interaction when making financial decisions.

¹Source: Cerulli Associates

²Source: Cerulli Associates

³Source: ETFGI

⁴Source: Brown Brothers Harriman

Mainland China

MULTI-PRONGED STRATEGIES BOOST GLOBAL PLAYERS



Mainland China's asset management industry continued to record robust growth in 2021, up 11% at year-end⁵. The industry's accelerated expansion in 2021 was mainly driven by the growth of publicly offered funds, wealth management products and private equity funds.

Onshore Retail Funds by Global Asset Managers

In a breakthrough for opening up the asset management industry in mainland China, one global asset manager received approval to launch two onshore retail funds. Despite the mixed performance of these two funds in Q1 2022, the move signified a major liberalization of the capital market for overseas players targeting one of the world's largest asset management markets.

The competition between global and local players will continue to intensify.

IM WFOE Private Fund Market

In early June 2022, 36 investment management wholly foreign-owned enterprises (IM WFOEs) had obtained licenses to distribute private funds in mainland China⁶. These IM WFOE private fund managers are capitalizing on their international expertise and experience to diversify their investment strategies from traditional equity strategies to multi-asset, fixed income and macro strategies. That said, the number of funds available remains limited. The most active IM

WFOE has launched only 17 products so far since inception, with the next most active bringing six to the market.

QDLP Picking up the Momentum

The Qualified Domestic Limited Partnership (QDLP) initiative, which allows foreign asset managers to raise funds in China to invest overseas, has made steady progress in past years. Nine cities have established pilot QDLP programs and more than US\$50 billion worth of quotas has been allotted via local governments since the scheme launched in 2013⁷. In May 2022, two newly formed local units of overseas financial institutions received Chinese regulatory approval to raise funds for investing overseas. One of these has become the first wholly foreign-owned retail fund manager to get a QDLP license.

Wealth Management Joint Ventures

Since the regulations around overseas asset managers forming Sino-foreign wealth management joint ventures (JVs) were relaxed in 2019, four similar majority-owned wealth tie-ups have been established in China. Facing a squeeze in fees, asset managers in developed markets are chasing growth and have been looking to expand in client-facing wealth segments.

⁵ Source: A report issued jointly by Boston Consulting Group and Everbright Bank

⁶ Source: Simuwang

⁷ Source: The Asset Management Association of China



Pension Market on the Rise

A major part of mainland China's plans to foster a culture of long-term investing in the country's asset management industry is the development of a strong private pension sector.

In April 2022, mainland China's State Council outlined plans for a new pilot private pension scheme that allows employees to invest in public funds and wealth management products. Individuals can open new private pension accounts at commercial banks or other financial institutions and may contribute up to RMB 12,000 (approx. US\$1,800) per year to the personal pension scheme.

Mainland China's private pension fund market is still relatively small compared with the national social security system and the multiple corporate-led pension schemes that make up the first two pillars of its pension regime. However, it is expected that the new system will attract many global participants, despite uncertainty on how global asset managers can participate. Firms that already have retail fund management company licenses or wealth management JVs will likely be given a head start. One Sino-foreign wealth management JV was invited to participate in the pilot in February 2022, subsequently rolling out its first onshore pension product.

What's Next for Mainland China's Asset Management Industry?

Mainland China's asset management industry has become an important driving force for global players. With the continuing liberalization of the mainland China's capital markets, more foreign institutions will look for growth opportunities in the Chinese market, whether through IM WFOE private funds, QDLP, onshore retail funds or wealth management JVs.

The ongoing participation of overseas players will continue to bring healthy competition and best practices to the mainland China's asset management industry, benefiting domestic investors with diversified and unique investment products.



Hong Kong SAR

LEADING BUT CHALLENGES PERSIST



The Hong Kong SAR's retail fund management industry recovered well in 2021 to post US\$8.79 billion in net inflows last year⁸. That said, the industry suffered strong fund redemptions in Q1 2022 as the fifth wave of the pandemic and geopolitical concerns impacted investor confidence.

2021 Recovery: Mixed Performance across Different Strategies

Multi-asset funds recorded strong net sales across all fund types last year, with S\$9.75 billion in net sales in 2021.

Retail equities funds were the next most popular one with net inflows of US\$6.39 billion for the year. Global and global thematic were the two most popular retail equities fund categories, recording US\$2 billion and US\$1.99 billion in respective net inflows in 2021.

Without doubt, the Hong Kong SAR investors are seeking ESG-themed products, which attracted US\$364.5 million in net inflows in 2021. More and more asset managers are looking for various types of ESG investment products and this trend is expected to continue in 2022 and beyond.

The fixed income category saw significant outflows every month last year. In particular, the net outflows was US\$6.31 billion in retail global bond fund strategies in 2021.

Challenging Q1 2022

Most fund outflows were seen in March 2022, with a net outflow of US\$1.1 billion, following on from US\$700 million in February 2022.

Retail fixed income funds continued to suffer from the biggest net redemptions among all fund types. This was attributable to the influence of the mainland Chinese property sector on market confidence across the entire corporate and credit sector, as well as to the U.S. Federal Reserve's interest rate hikes.

Sales of retail equities funds in the first quarter of 2022 were positive, but much more mixed. In total, equities funds recorded net inflows of US\$1.24 billion in the first three months of 2022, buoyed mainly by US\$976.6 million of sales in January 2022.

⁸ Source: All the figures are from the Hong Kong Investment Funds Association.

Talent Exodus and Cross-border Scheme Offer Mixed Fortunes

The exodus of talent from the Hong Kong SAR since 2019 continues to be a pressing concern, perpetuated by strict COVID-19 policies. Talent shortages in the financial industry have forced many asset managers to increase staff remuneration and offer quarantine subsidies.

While the Hong Kong SAR enjoys unique advantages for access to investors in mainland China, most asset management companies still find it difficult to really benefit from cross-border fund sales with the mainland China.

The Mainland-Hong Kong Mutual Recognition of Funds scheme, introduced in 2015, and the newly launched Greater Bay Area Wealth Management Connect provide a unique platform for overseas asset managers to penetrate the mainland market. That said, complicated restrictions and the hefty resources required have made many asset managers rethink their resources and commitment in this space, a new survey by the Hong Kong Investment Funds Association has found.

Family Office and Wealth Management on the Rise

The Hong Kong SAR continues to present a unique gateway between mainland China and international markets. Wealth management and family office offerings are on the rise as wealthy individuals and families seek diversified investment opportunities. According to a recent report⁹, family offices worldwide are looking to increase investments in Asia Pacific, with a particular focus on mainland China. Nearly half of global respondents already have investments in mainland China, with a further 14% planning to enter into the market.

What's Next for Hong Kong's Asset Management Industry?

The Hong Kong SAR continues to face unprecedented challenges to maintain its status as a key regional hub for the Asia Pacific asset management industry. The talent exodus and ambiguity around border reopening continue to present challenges and uncertainty for the growth of the industry.

The incoming Hong Kong SAR Chief Executive has pledged to maintain the city's position as an international financial center, and the city is now seeing the gradual relaxation of COVID-19 restriction policies. The Wealth Management Connect and other liberalization policies in the mainland capital markets will no doubt continue to provide added impetus for the Hong Kong SAR.

⁹ Source: Campden Wealth's Global Family Office Report 2021

A circular inset image showing a panoramic view of the Singapore skyline at dusk. The Marina Bay Sands hotel is the central focus, with its iconic three towers and skybridge. The city's skyscrapers are visible in the background, and the water of Marina Bay reflects the city lights.

Singapore

INVESTORS SEEK NEW WAYS TO GROW WEALTH RIDING ON ESG WAVE

Despite the backdrop of the U.S. Federal Reserve's plans to raise interest rates, mounting inflationary pressures and the ongoing economic fallout from mainland China's zero-COVID policy, Singapore's investment managers remain optimistic as ASEAN's show of resilience, with its economic reopening putting the region in good stead.

For the first time in 30 years, ASEAN-6's projected 2022 growth forecast of 4.9% looks set to outshine mainland China at 4.5%¹⁰, thanks to its adaptability to a new endemic normal. ASEAN-6 is made up of Singapore, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Singapore is now further along the recovery path and is expected to retain its hub status as the springboard for global investors to access opportunities in Asia and regional investors to gain access to global capital markets.

In this context, it comes as no surprise that our data reflects Singapore's investors are retaining their current asset allocation despite the ongoing Ukraine-Russia conflict, deviating from investor reaction across the Hong Kong SAR, mainland China and South Korea.

In the next 12 months, we see several supporting trends behind the sustained growth of new pools of AUM for Singapore's asset managers.

Capital Inflow Boosted by 'Onshorization'

Based on the Monetary Authority of Singapore

(MAS)'s most recent data, the city-state's AUM expanded by 17%, in line with the global trend, to US\$3.5 trillion.

Adjusting to the realities of the prolonged pandemic, investment managers were able to minimize disruptions to fundraising and drive new product innovation while working remotely.

Leading global institutions continue to view Singapore as the anchor for their Asian/APAC strategy to grow their regional presence. The new Variable Capital Company ("VCC") framework remains an attractive option to domicile their funds and facilitate movement as they face compliance costs brought on by a stricter regulatory regime in the EU and other locations.

Investor Curiosity Piqued by New Ways to Grow Wealth

Singapore is now home to more family offices with billionaire wealth managed locally increasing by almost one-third between April and July 2020 to US\$102.6 billion¹¹. A new generation emerging from ultra-high-net-worth (UNHW) families is keen to change investment strategies and dip their toes into alternative investments such as private equity to grow their wealth.

Our survey also shows Singaporean investors to be more open to exploring new asset classes than their counterparts in other markets, as they seek portfolio diversity across sectors.

¹⁰ Source: Maybank

¹¹ Source: UBS/PwC's 2020 annual billionaire insights report

Wider Industry Endorsement of ESG Will Drive Growth

According to the Investment Management Association of Singapore (IMAS), an uptake in the adoption of ESG investing by asset managers can be attributed to increased regulation and greater investor awareness and demand. ESG or impact-focused strategies now rank as the top strategy for 79% of managers here, leading to the introduction of new business lines for asset managers in the city.

What's Next for Singapore's Asset Management Industry?

As the Singapore government stays cautiously optimistic on its growth prospects, its well-established financial ecosystem will stand to benefit tremendously from the ongoing ESG boom.

The establishment of a US\$2 billion green investments programme (GIP) by the MAS will go a long way in supporting the global financial center in

promoting sustainable and green finance.

The central bank will place funds with asset managers who have demonstrated a strong commitment to driving regional green efforts out of Singapore, developing green markets and managing environmental risks.

Investors are looking for new ways to grow their wealth to counter inflationary pressures in a volatile market. The MAS will facilitate the growth of new pools of AUM in tandem with sustainable and green finance. Its vision to become the 'bright green spark of the world' may not be far off.

South Korea

INSTITUTIONAL INVESTORS-DRIVEN MARKET WITH RETAIL INVESTORS CHASING ETFs

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The South Korean asset management industry was spurred by the growing trend of institutional investors seeking alternative investments (either directly or indirectly) in both domestic and foreign products. However, the growth of public funds has been stagnant recently and retail investors are still a bit hesitant on the long-term performance of public funds available in the market. Some disgruntled investors are still concerned about mis-selling and fraud after a few recent high-profile incidents.

Growth of Institutional-led Private Markets in South Korea

Private funds is one of the fastest growing fund markets in South Korea. As at September 2021, there were a total of 981 registered private equity funds (PEFs) under Financial Supervisory Service (FSS). The combined value of capital anchored in these PEFs was KRW 17.9 trillion (US\$13.9 billion) in 2020, and KRW 10.9 trillion (US\$8.5 billion) for the first three quarters of 2021¹². Such growth was mainly attributable to institutional investors favoring these products (typically offshore) over public mutual funds due to diversification and less market-correlated returns. Several South Korean pension funds are also actively outsourcing investments to external asset managers for alternative investments like private debt and real assets.

Competition-wise, around 300 new fund firms were registered in the country as of the end of 2021 after the financial regulator loosened rules on private equity funds in 2015¹³. New players

need to find their own white space by looking at particular investment sectors like logistics, private capital or real assets.

Retail Investors' Hype about ETFs and Metaverse-themed Products

Retail investors in South Korea are heavily interested in ETFs to diversify their portfolios. They have invested about KRW 6.9 trillion (US\$5.6 billion) into ETFs on the local bourse from October 2021 to March of 2022¹⁴. They are mostly interested in international-themed ETFs with exposure to Chinese electric vehicles and U.S. technology companies. It also marked the first time that the flows into ETFs surpassed inflows into South Korean equities since 2019.

In addition, metaverse-themed ETFs have garnered huge demand among retail investors in Korea since 2021, pulling about KRW 384 billion (US\$300 million) in new money from January to mid-November 2021¹⁵. Labelled as one of the most popular topics in 2021, South Korea was the first country in Asia to introduce metaverse-themed ETFs, with the first four such products debuting in October 2021, all by top-ten asset management companies. The Seoul Metropolitan Government also announced that it would become the first major city to enter the metaverse, creating strong public interest in this new investment theme in the country. South Korea has indeed trailblazed the metaverse-theme ETF market in the region, with other markets in the region starting to follow suit.

¹² Source: Shin & Kim LLC

¹³ Source: Korea Economic Daily

¹⁴ Source: Bloomberg

¹⁵ Source: Bloomberg

Time to Rebuild Trust?

The healthy development of the asset management industry in South Korea has been plagued by a few high-profile frauds, which rocked the confidence of investors in the country. In particular, many of those impacted are retail investors, often referred to as “ants” in the financial media, some of whom have turned to managed funds to build their nest egg, with increasing inflation, volatility in the stock market, and investments such as real estate beyond their financial reach. While the local regulator has been taking actions to suspend the operations and related employees of those asset managers, proper examination of the regulatory framework is needed, as well as a need to double down on efforts to enhance investor protection. The newly appointed Minister of Justice declared a crackdown on financial crimes in his inaugural speech and immediately directed an expansion of the financial crime investigation division into a larger entity called the Financial and Securities Crime Joint Investigations Team. In addition, former chief public prosecutor at the Seoul Northern District Prosecutors’ Office was appointed as the head of the Financial Supervisory Service (FSS) for the first time. As he mostly dealt with financial crimes, there is speculation that previous high-profile cases may be re-investigated.

What’s Next for South Korean Asset Management Industry?

In 2021, the net profit of South Korean asset management companies exceeded KRW 2 trillion (US\$1.56 billion) for the first time, amounting KRW 2.17 trillion (US\$1.69 billion), up 67.1% from the previous year. According to the FSS, this is due to the increase in commission income and securities investment profits. Of the total 348 asset management companies in the market, 310 recorded surpluses and only 38 recorded deficits. With the strong growth in ETFs and institutional investors’ appetite for offshore investments, the prospects of the asset management industry in South Korea

remains positive. The stronger need for investor education and protection will continue to be the priority for the regulators, asset managers and all the industry stakeholders to foster a healthy development of the industry.

The new president in South Korea is also understood to have pledged to expand the fund management role of the sovereign wealth fund in South Korea, Korea Investment Corporation (KIC), according to the latest version of the national action plan drafted by the Presidential Transition Committee. The new administration is expected to funnel capital from some small-sized retirement funds and mutual aid to the sovereign fund to enhance the profitability of overseas investments and reduce related fees. The rationale is that most small-to-mid-sized funds lack the expertise and resources available through KIC. How this will transform the pension market and asset management in South Korea will be something worth monitoring. This plan is line with the goal of “Advancing the Financial Market”, which was one of the plan’s core tasks. With the new administration, inaugurated early in May, South Korea is expected to take a “pro-market” turn in its policies.

One of the more interesting developments to watch will be how much the new president’s policies will impact South Korea’s pursuit of developed market status from MSCI. While the new administration’s policies appear to align with this pursuit, it is likely the process will be drawn-out over an extended period.

Survey Findings and Takeaways





Survey Findings

TRUE Global Intelligence, the in-house research practice of FleishmanHillard, conducted an online survey of 418 investors in four markets (mainland China, Hong Kong SAR, Singapore and South Korea) between 27 April and 5 May, 2022.

All respondents to the survey have traded or invested in at least one of the following:

| | |
|--------------------|-----|
| Equities Funds | 77% |
| Fixed Income Funds | 57% |
| ETFs | 48% |
| Alternatives | 15% |
| Balanced Funds | 30% |
| PE Funds | 11% |

Expanding the survey to four markets this year, we aimed to explore professional investors' preferences for different investment products and themes and to understand their attitudes to overseas asset managers. We also asked them where they look for financial information and advice, and whether they are using digital platforms to access or purchase funds.

Survey highlights: Asia

- Investors are interested in investing in equity funds (62%), ETFs (47%) and fixed income funds (46%) in the coming year. Cryptocurrency-related products (45%) and investments in the internet and tech sector (53%) are set to be popular.
- Credibility (96%), performance (96%) and service fees (90%) are key criteria for choosing an asset manager.
- Overseas asset managers are preferred for their performance (53%), track record (45%) and trustworthiness (43%) by investors over local players.
- More than half (59%) of investors use online methods for fund patronage, followed by independent financial advisers (46%) and wealth managers (43%).
- With the increasingly global volatility driven by Ukraine-Russia conflict, most investors are moving investments into lower risk options, although Singaporean investors are just as likely to maintain their current asset allocations as they reduce risk.
- Asian investors value asset managers that are transparent in customers communication (92%) and fee disclosure (89%) and that offer sophisticated risk management capabilities (90%) and strong ESG products (78%).

Survey highlights: Mainland China

- In addition to fund house websites (65%) and financial media (64%), mainland Chinese investors rely on robo-advisors (54%) for information on funds and investment products.
- With WeChat and Weibo as their main social media channels, investors are active and data-driven, using asset managers' social media channels to access information on the company and its products, diversity and inclusion policies and social responsibility initiatives.
- Mainland Chinese investors are active in all channels for fund patronage, led by online platforms (72%) and robo-advisors (49%).
- These investors are tech-savvy and report positive fund purchase experiences through digital platforms, with an average 89% satisfaction rate.
- Mainland Chinese investors are risk-averse: more than half are moving investments to lower risk options as a result of the Ukraine-Russia conflict, compared to 12% seeking high-yield opportunities.

Survey highlights: Hong Kong SAR

- With YouTube (59%) and Facebook (57%) as the main social media channels, investors in the Hong Kong SAR seek aspirational content, from product (74%) and corporate (64%) information to thought leadership (61%) and investor education (51%).
- The source for fund patronage is split between independent financial advisers and bank intermediaries (53%) and online platforms (50%), with fewer relying on wealth managers (36%) or robo-advisors (24%).
- Due to the Ukraine-Russia conflict, 53% of Hong Kong SAR investors have moved investments into lower-risk options and 20% have increased their risk appetite.

Survey highlights: Singapore

- Singaporean investors are more exploratory than their counterparts in other markets, seeking a diverse fund portfolio with investments in a range of sectors (excluding automobiles).
- With Facebook (51%) and YouTube (46%) as the main social media channels for information, investors look for product information, corporate content and investor education on asset managers' social media channels. They have low interest in thought-leadership and recruitment information.
- Less than half of Singaporean investors have used a digital platform to purchase mutual funds. These investors are less satisfied than their regional counterparts in the advice available on asset allocation and risk management.
- The Ukraine-Russia conflict has not altered the risk profile of investors, with 37% retaining their current asset allocation.

Survey highlights: South Korea

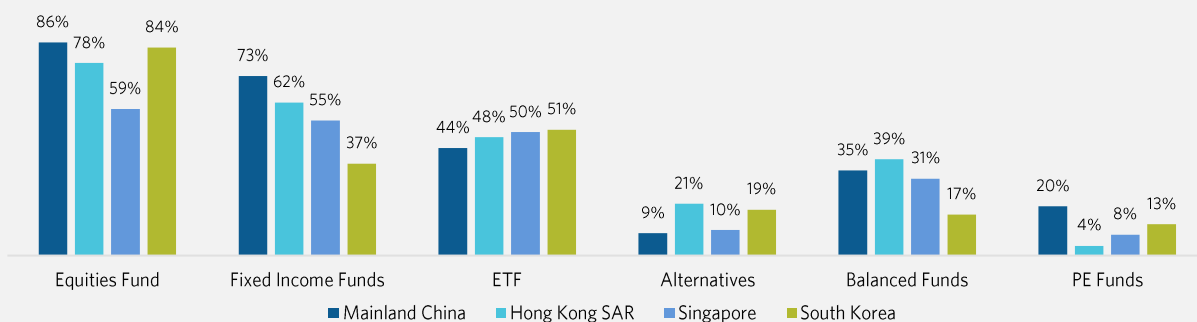
- South Korean investors give most weight to track record (50%), trust (35%) and performance (33%) when purchasing local funds from overseas asset managers.
- For future investments, most investors in the region are interested in the Asia Pacific region, while South Korean investors have a high preference for North America.
- While financial media remains the key channel, YouTube (65%), Naver (50%) and Facebook (30%) are the top social media channels that investors use for access to corporate and product information and thought leadership. They are keener on interactive games (22%) than others in the region.
- Just over one-third (38%) of South Korean investors have purchased funds on a digital platform and they are less enthusiastic than others in the region about the experience.
- South Korean investors want to see asset managers "walking the talk" in proxy voting in listed companies in the following ESG commitment.
- The Ukraine-Russia conflict is leading most South Korean investors (52%) to move their investments to lower-risk products.

Survey Results

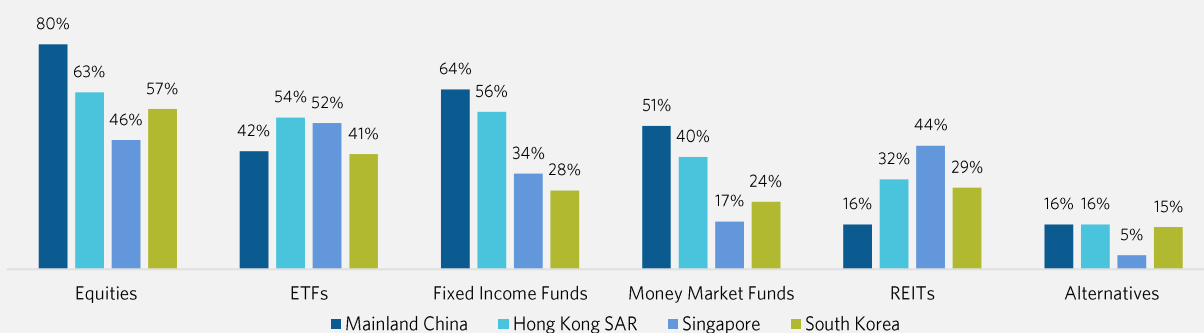
EXPERIENCE AND OUTLOOK

Investors across all markets have experience in trading and investing in equities funds (77%) and fixed income products (57%). ETFs are similarly popular across the markets, with close to half of investors in South Korea, Singapore and the Hong Kong SAR having an ETF in their portfolio, along with 44% of mainland Chinese investors. Interestingly, investors are currently less interested in the less liquid investments, such as alternatives and PE funds. In contrast, around a third have invested in balanced funds to reduce the volatility of their investment portfolio.

What types of financial products have you traded or invested in?



In the next 12 months, what kind of investment products are you interested in?



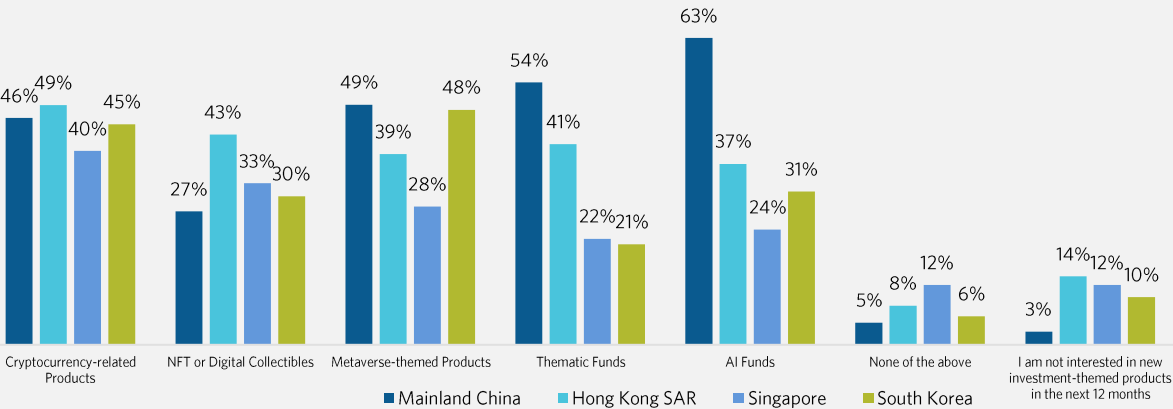
Looking ahead to the next 12 months, investors across the region continue to have a strong appetite for equities (62%), ETFs (47%) and fixed income funds (46%). In addition, money market funds remain popular among mainland Chinese investors (51%), while Singaporean investors are more interested in real estate investment trusts (REITs) than those in other markets (44% compared with 16% in mainland China and 29% in South Korea). Alternatives are less favored across the board.

UPCOMING INVESTMENT THEMES AND REGIONS

The vast majority of investors across the markets are interested in new investment-themed products. Cryptocurrency-related products topped investors' wish-lists, with 45% interested in them despite weaker performance in the six months prior to the survey. A total of 41% also expressed interest in metaverse-themed products, and one-third (33%) admitted to considering investing in a non-fungible token (NFT) or digital collectible, largely driven by investors in the Hong Kong SAR, where 43% of respondents stated interest.

Investors in mainland China stood out for particularly strong interest in artificial intelligence (AI)-related funds and thematic funds, partially driven by the technology advancement by mainland technology heavyweights.

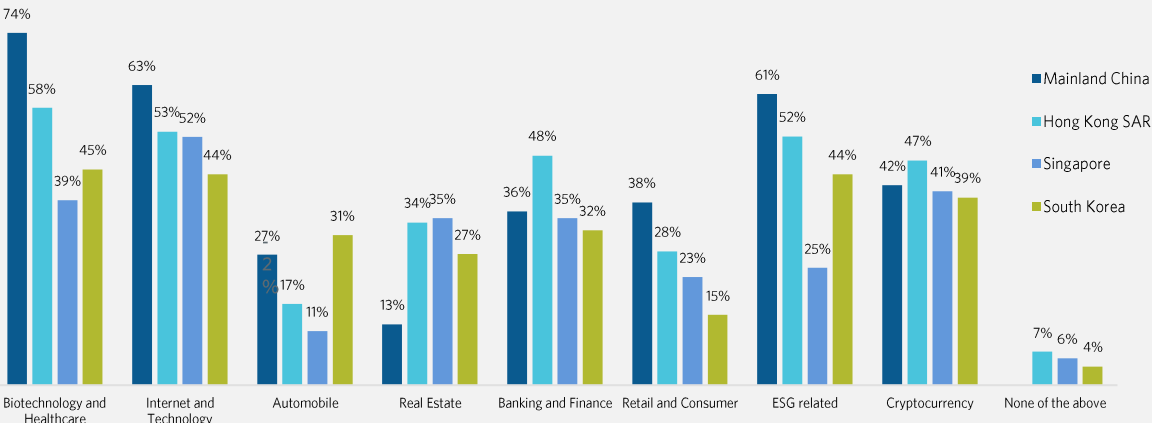
What kind of new investment-themed products are you interested in the next 12 months?



Innovation was also a factor in terms of sectors that look to garner the most investment in the coming year. Growth-focused themes dominate investor sentiment: Internet and technology (53%) and cryptocurrency (45%) drew strong interest from all four markets, while mainland Chinese and Hong Kong SAR investors are particularly interested in biotechnology and healthcare, as well as ESG-related sectors.

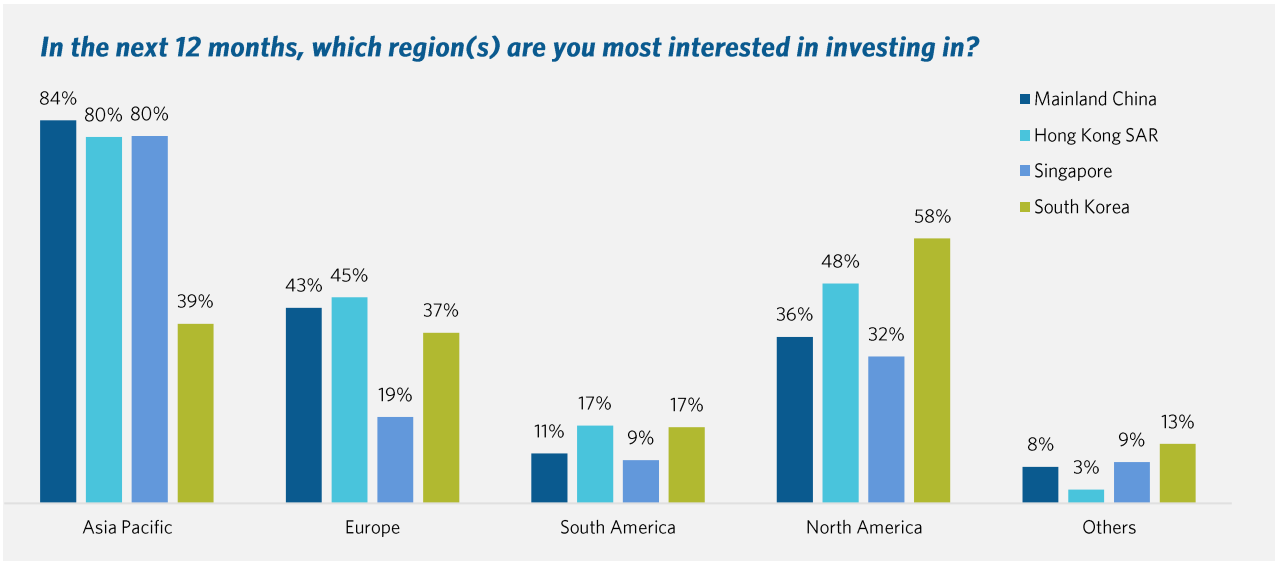
In contrast, the automobile, real estate and retail sectors are falling out of favor. In mainland China, the market for which we have results from last year's survey, banking and finance fell from the top spot, dropping 34%, while real estate continued its downward trajectory, dropping 30 percentage points.

In the next 12 months, which sectors are you most interested in investing in?





Given global volatility and ongoing uncertainty, it is no surprise that Asian investors show a strong preference for investing in the region they know the best: Asia Pacific. The exception here are South Korean investors, who are most keen to invest in North America (58%) and are almost as likely to target Europe (37%) as Asia Pacific (39%).



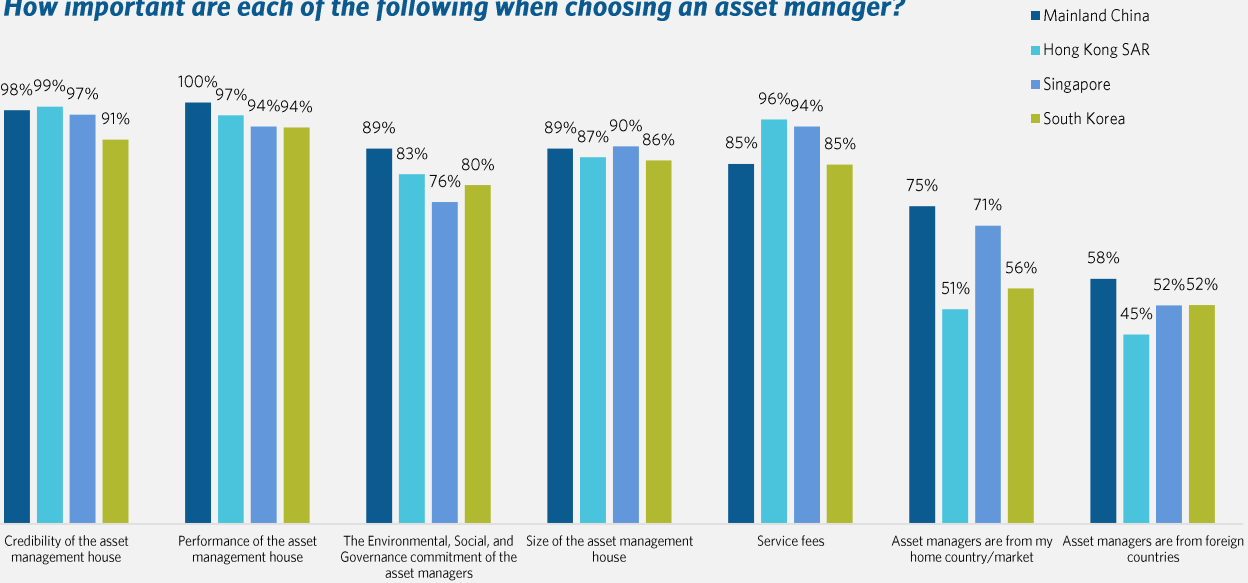
THOUGHTS ON GLOBAL ASSET MANAGERS

The top three criteria investors used to select an asset manager are credibility (96%), performance (96%) and service fees (90%).

The ESG commitment of asset managers also ranks highly. This comes as regulators across the region are introducing greater transparency and more consistency to ESG reporting standards. In January 2022, for example, the Hong Kong SAR’s Securities and Futures Commission (SFC) enhanced disclosure requirements for ESG funds, while new rules on the disclosure of environmental information came into force for a range of mainland companies from February.

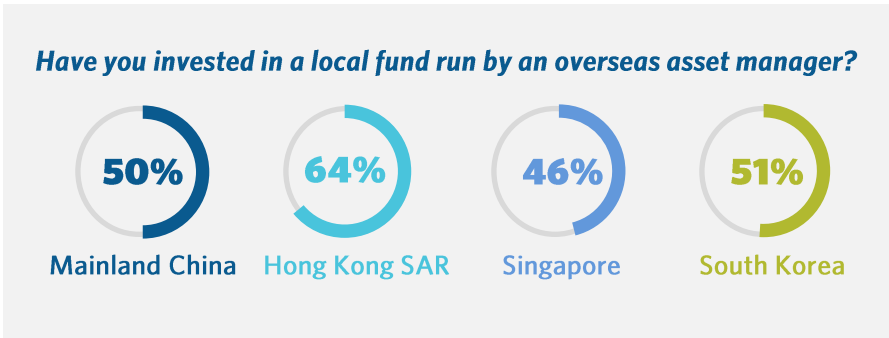
In contrast, investors generally are less interested in the domicile of the asset manager than in other factors, indicating a more level playing field. Mainland China has the highest preference for both local and foreign asset managers. However, compared to last year’s survey, mainland investors are now putting far less focus on the nationality of origin of their investment services provider, continuing a trend we have noted for several years: investors’ preference for a Chinese asset manager is down by 18 percentage points in the 2022 survey, while the preference for a foreign asset manager is down by 23 percentage points as compared to last year.

How important are each of the following when choosing an asset manager?



Breaking this down further, this year’s survey asked investors about their experience in investing in local funds run by overseas asset managers: close to half of investors in Singapore, mainland China and South Korea had done so, while 64% of Hong Kong SAR investors had made that choice.

Have you invested in a local fund run by an overseas asset manager?



As to why this should be the case, investors cited better performance (53%) and a better track record (45%) as key drivers for purchasing local funds from overseas asset managers, with the trustworthiness of global brands also revealed as an important factor (43%). This underscores the importance of transparent communications for foreign fund managers building their brands in Asia.

Interestingly, recommendations from either independent advisers or friends and family are much less important than other factors. This may indicate improved access to publicly available information and more familiarity with foreign players.

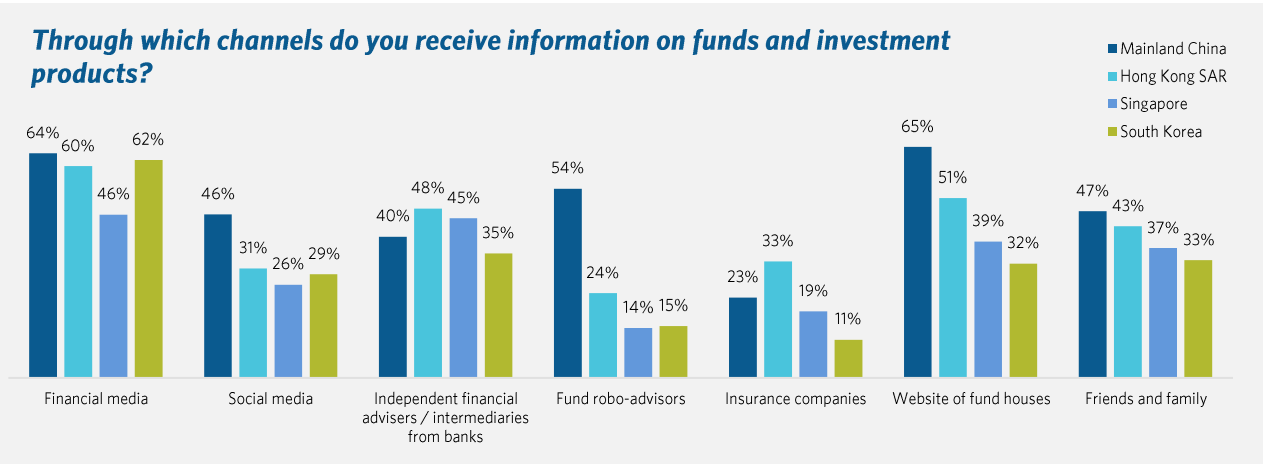
Why did you choose a foreign asset manager over a purely local player?



INFORMATION SOURCES

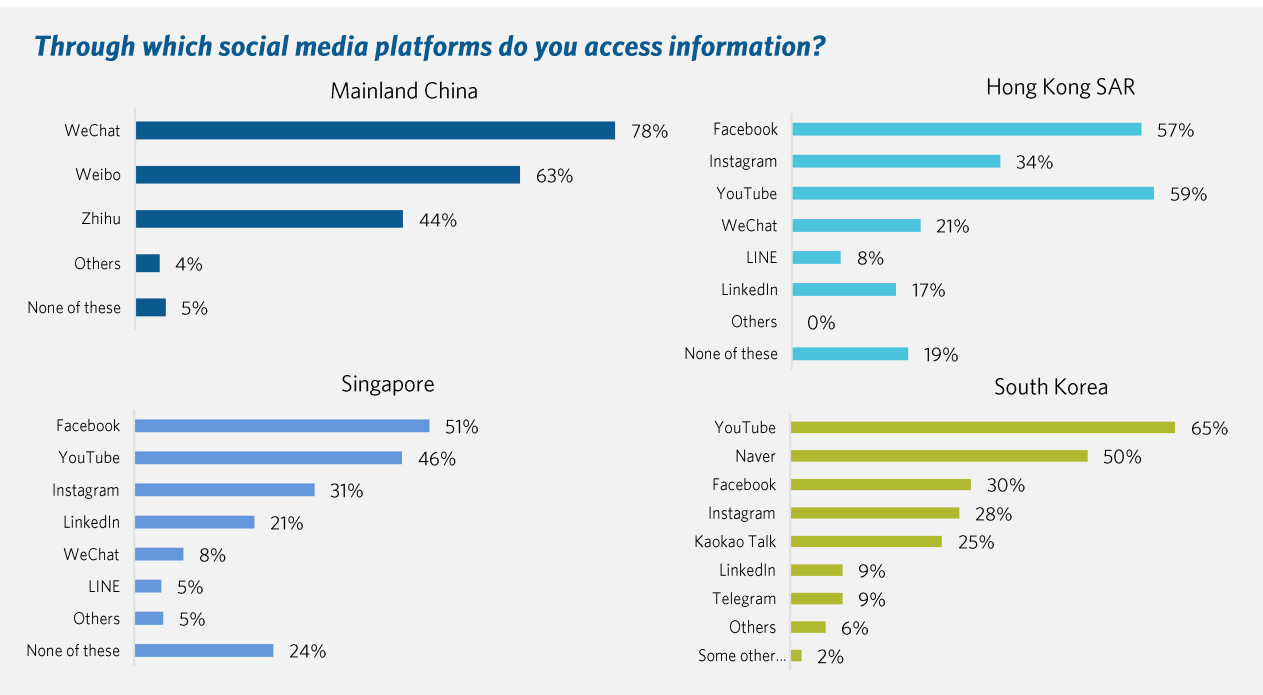
Underscoring investors’ preference for quality financial information and advice, financial media is the key channel for investors across all markets to access information on funds and investment products (58%). The websites of fund houses (47%) and independent financial advisers (42%) are also relied upon, just outpacing social media (33%).

It is interesting to note that mainland Chinese investors tend to rely on a wider array of channels, including robo-advisors (2022: 63% vs 2021: 54%) and friends and family (2022: 47% vs 2021: 35%).



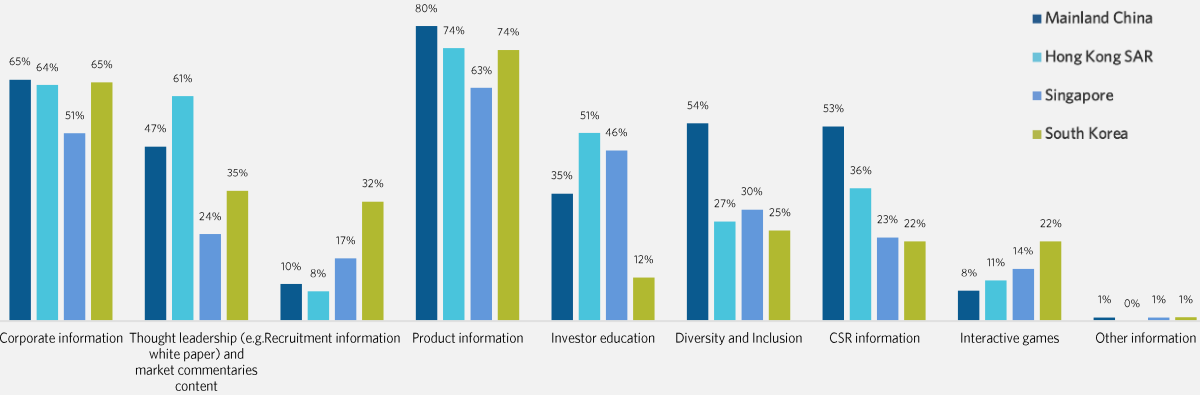
As has been the case in previous surveys, WeChat is the most important way for asset managers to connect with Chinese investors on the mainland, especially those looking for product and corporate information. Elsewhere, Facebook, YouTube and Instagram dominate, with South Korea’s homegrown Naver also in the mix in its home market.

The survey underscores the point that asset managers must prioritize the sharing of product and corporate information on their social channels, with investors in the Hong Kong SAR and mainland China also seeking thought leadership and market commentary on these platforms.



INFORMATION SOURCES

What type of information do you look for on asset managers' social media channels?

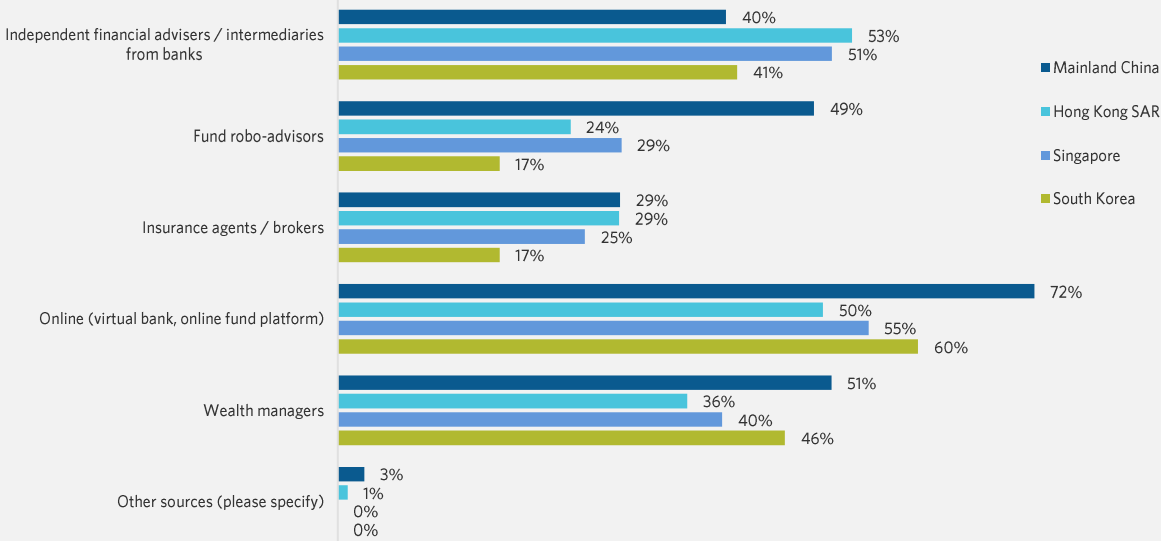


FUND PATRONAGE

In each market, at least half of investors use virtual banks or online fund platforms to access their fund products, making these online methods the most popular (59%) and suggesting the shift to online channels sparked by the pandemic is here to stay. Independent financial advisers or bank intermediaries continue to be important (46%) alongside wealth managers (43%).

Comparing mainland investors patronage methods with our last survey, we can see the shift to online sources gaining momentum (up by 15 percentage points) at the expense of financial advisers (down by 34 percentage points) and robo-advisors (down by 8 percentage points). It will be interesting to chart this shift across all four markets in next year's survey to see if investors are moving away from face-to-face interactions and becoming more comfortable with online channels.

Which of the following sources do you use for fund patronage?



FUND PATRONAGE

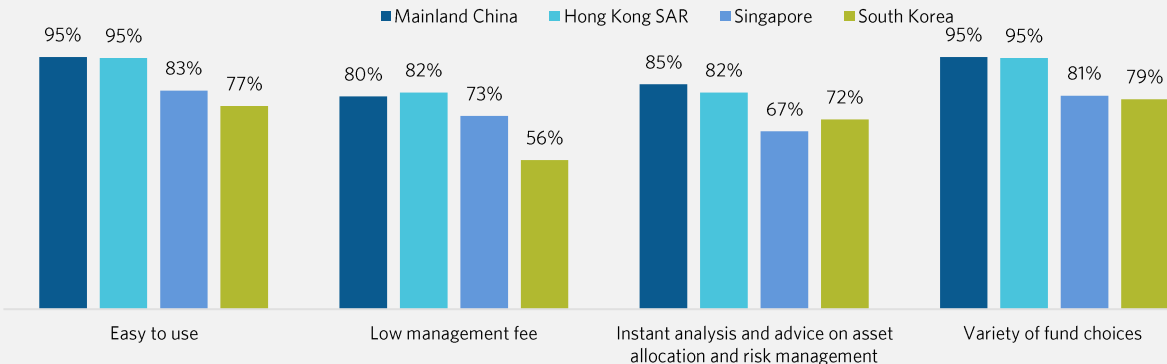
A similar pattern can be seen in investors' use of digital platforms to purchase mutual funds, with mainland investors particularly enthusiastic. On the other hand, more than half of investors in Singapore (51%) and South Korea (62%) chose not to purchase from digital platforms.

The level of satisfaction among those who have already used digital platforms is high, with investors praising their ease of use and low fees and the access they offer to timely analysis and a wide variety of products. This perhaps suggests that such platforms will gain momentum as more investors experience their benefits. However, there is room for improvement in all markets, especially in Singapore and South Korea, where investors were less happy with the available advice and fee level.

Have you used a digital platform to purchase mutual funds?



What was your experience using a digital platform to purchase funds?

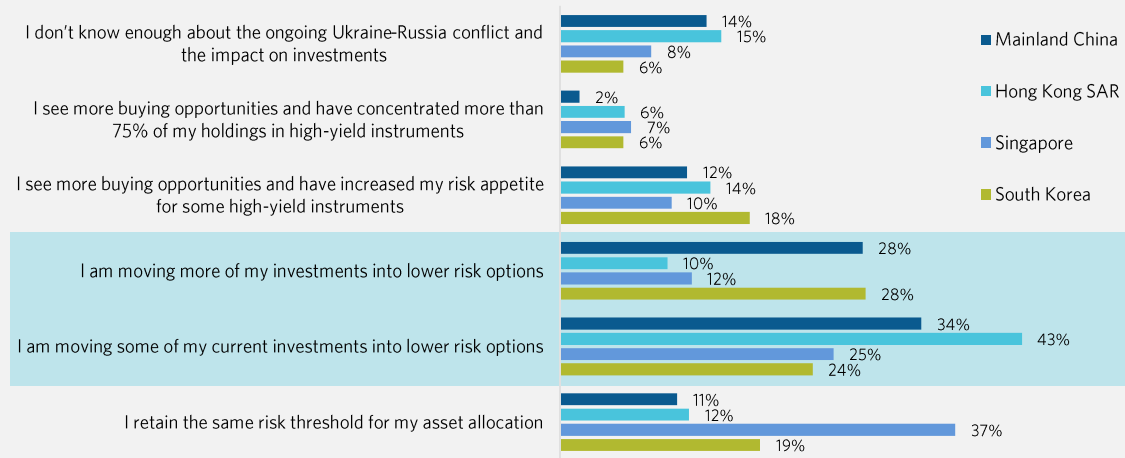


GEOPOLITICS



With the Ukraine-Russia conflict continuing to introduce volatility into world markets, most investors are moving at least some investments into lower risk instruments, with few holding steady or seeking out high-yield opportunities at this time. Singaporean investors are the exception, with 37% retaining their current asset allocations alongside 37% moving some or more of their investments to lower risk options.

How has the ongoing Ukraine-Russia conflict affected your investment outlook and risk appetite in terms of asset allocation?



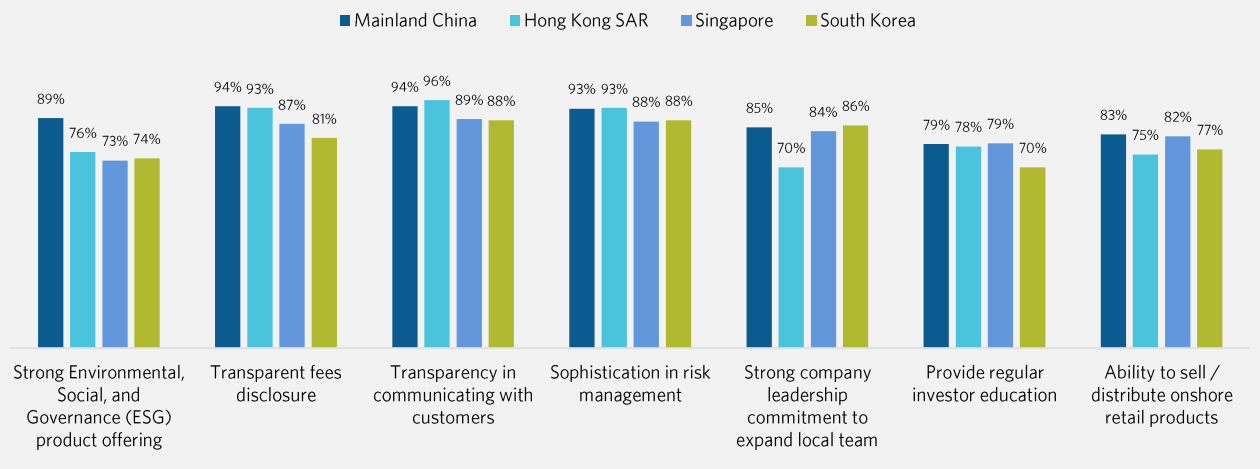
APPEALING TRAITS



In general, professional investors hold overseas fund management houses to a high standard. Of most importance are transparency – both in customer communications and with regard to fees – and risk management. Strong ESG product offerings also rate highly. Although on-the-ground capabilities, such as a commitment to expanding local teams and the strength of the firm’s local distribution and investor education offerings, are of lesser importance, they are still significant.

This all suggests that foreign asset managers must be able to communicate in a transparent manner, especially around fees and the sophistication of their risk management capabilities and ESG offerings.

How important is it for overseas fund management houses in your market to have the following traits?



APPEALING TRAITS

Capital continues to flow into ESG funds from Asian investors, with governments and the public increasingly recognizing the importance of climate change and the need to transition to a net-zero economy. For professional investors, clarity and transparency are the ESG commitments they most want from asset managers. Investors also want to see asset managers “walking the talk” in proxy voting in listed companies, though they are less strict about requiring them to refrain from investing in coal and mining.



Key Insights for Asset Managers



KEY INSIGHTS
FOR ASSET
MANAGERS

Winning Strategies

FOR ASSET MANAGERS IN ASIA

Asia has been the growth engine for many overseas asset managers over the past decade. In recent years, however, the COVID-19 pandemic, tightening regulatory scrutiny, ongoing geopolitical tensions and an increasing focus on ESG have added to the pressure on overseas asset managers navigating this fragmented region. So, what's next for overseas players now?

Credibility and Performance Powered by Global Expertise and Local Insights

While global asset managers can continue to leverage their international track record to hone their credibility, they will all face much stiffer competition from their global and local peers in the region in the years to come. At the same time, inflation and the Ukraine-Russia conflict have created volatility for asset managers seeking to deliver outperformance. Those that can truly deliver uncorrelated alpha and diversified beta will win the heart of investors.

Diversification and downside protection are top of investors' agenda right now. Our survey revealed that most Asian investors are geared towards more conservative investment products in the next 12 months, with investors from Singapore being the exception. Asset managers will need to navigate the complex journeys of performance-oriented investors in the region. Launching Asia-focused products and strategies and actively communicating your investment views and perspectives can help you gain the competitive edge.

Transparency and Communications: No Surprises for Investors

Our survey shows that transparency is still top of mind for most investors. Demanding more on this front during a market downturn, investors want to ensure every dollar invested is justified. The monthly fund factsheet or annual report will not be sufficient. To deliver transparency today, 360-degree communication across all touch points is required to ensure that investors remain free from surprises.

In addition to communicating fees and performance, overseas asset managers also need to elevate their communications strategy to articulate their corporate vision, mission and purpose, and their long-term commitment to serving investors in the region. The 'good old days' of wooing Asian investors with a parachute tour by star fund managers are long gone. Investors want more regular and meaningful communications, be it through their relationship managers or via social and digital communications.

Overseas asset managers need to demonstrate that they are playing a long-term game by investing in the region, hiring local talent and building up their presence in the region.



Invest Well and Do Good

Driven by regulatory requirements, institutional investors' disclosure mandates and increasing societal expectations, asset managers need to double down on their efforts in responsible investment, demonstrating the impact on society and the environment.

The ESG narratives of most asset managers are, by and large, highly homogeneous. Putting ESG at the center of day-to-day operations and proactively communicating these actions will help asset managers to cut through the noise. They need to take bold decisions to divest in or refrain from investing in companies that attain poor ESG scores. In proxy votes, they need to champion best practices in corporate governance and fairness to shareholders.

While some ESG data and information is publicly available, asset managers need to develop their own proprietary research and methodology to evaluate the ESG commitment of the stocks and companies they invest in. Regular engagement with investee companies' senior management is also pivotal to uncovering and avoiding greenwashing.

Digitalization with Investment Expertise

Investors are more technology-savvy today, and we see increasing demand from investors in the survey who prefer to venture online for information and fund patronage. It will take time for robo-advisors to take over from relationship managers and trusted intermediaries in the asset management industry. The key move now for successful asset managers is to harness their investment expertise and pair it with unique technology to enhance operational efficiency and offer more bespoke investment solutions for customers.

Concluding Thoughts

There is no shortcut to excellence in the Asia asset management industry, but there are better ways to communicate global strength in investment expertise and regional capabilities to cement industry positions. Building a strong narrative on global expertise and experience, together with a distinctive ESG commitment, will help endure all challenges and storms and outpace rivals in the region.

Never Settle

Are you ready? FleishmanHillard is committed to advising all asset managers, financial institutions and other professional bodies in supporting their market entry, thought leadership and public affairs campaigns in the region.

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FleishmanHillard is your go-to-advisory firm in managing your communications and reputation in Asia.

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Appendix

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