EXTERNAL ASSET MANAGERS IN ASIA

NEW DIRECTIONS FOR A RAPIDLY-EXPANDING SECTOR

UBS

WealthBriefing Asia

Have I gone as far as I can?

Can I still grow my business?

Or should I invest in other areas?

FOREWORD

WealthBriefingAsia is delighted to be continuing its research partnership with UBS with our second annual report examining the growth of the External Asset Manager sector in Asia.

Our 2016 report, "A Tale of Two Cities (for Now): The Rise of External Asset Managers in Asia", found great success in garnering a huge amount of support from this segment of the industry and in raising its profile via many instances of media coverage in both the consumer and trade press.

We are particularly proud to have widened the scope of the project even further this year, and particularly in having gained invaluable on-the-ground insights from those working in more nascent markets such as Thailand and the Philippines, in addition to the wealth of input we had across the powerhouses of Singapore and Hong Kong.

Our title for 2017, "External Asset Managers in Asia – New Directions for a Rapidly-Expanding Sector", was chosen to highlight the momentum the independent advisor model has gained in new markets in the region, but also to reflect the fact that the sector is rapidly evolving in several directions at once. As Asia-Pacific continues to mature as a wealth management market generally, the shift towards fee-based advice and relationship-driven (rather than transactional) partnerships is rapidly gathering pace. With the region's regulators showing ever greater understanding – and support – of the EAM model, the stage is set for what many foresee to be strong growth in the coming years.

The EAM "umbrella" is extremely broad, covering organisations ranging from professional fund managers through to single/multi-family offices. As will be seen, the fact that many firms operate a "hybrid" model makes the classifications and nomenclature surrounding the sector worthy of discussion in themselves. However, the unifying characteristic all EAMs share is their *independent* approach to constructing precisely the right service and investment package for their clients, and their intermediary role in selecting and orchestrating what might be a wide range of financial/legal service providers to get this mix exactly right. As such, EAMs might arguably be seen as embodying a "best-of-breed" approach to managing wealth.

As last year, this report seeks to unpick the appeal of the EAM model for High and Ultra High Net Worth clients, but also for seasoned bankers who might look to establish or join independent advisory firms. We also explore precisely which types of EAM business are best-placed to thrive, drawing out regional and regulatory differences as part of a thoroughgoing assessment of the opportunities - and challenges – facing EAMs.

Sentiment for the sector may be overwhelmingly positive, both in terms of increasing market share and the number of independents that will come into existence, but that is not to imply unfettered growth. As with every strata of the wealth management industry today, EAMs are beset by ever tightening regulation at both national and supranational levels. For a sector that tends to focus very much on international clients, constraints on cross-border business are a real concern.

This report aims to tackle an ambitious array of key issues affecting EAMs today and going forward, ranging from fee models and profitability through to the investment mix, technology platforms and – of course – compliance. Naturally, there is also a big focus on the way that independent wealth managers can best work with custodian banks, partnerships without which the EAM model could not function at all.

Our research pulls together the voices of over 100 stakeholders and we are extremely grateful to all the EAMs, senior banking executives, consultants, regulators and professional bodies who took part in our survey, contributed their views and helped to promote the project.

As ever, we welcome feedback on this or any other research, and would be pleased to discuss ideas for future development readers might have.

WENDY SPIRES
Head of Research
WealthBriefing

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WealthBriefing

Report Author

Wendy has been a wealth management journalist and researcher for nine years, covering a variety of international markets and sub-sectors over that time. She has written an array of in-depth reports on issues affecting private banks and wealth managers, including technology and operations trends, enhancing the client experience, branding and marketing strategy, and risk-profiling methodologies.

As well as speaking at conferences in both the UK and abroad, Wendy also regularly consults on strategic and communications issues related to the wealth and asset management market. She now increasingly carries out research projects among end HNW clients, for both internal and external purposes.

ANIRUDDHA GANGULY
Executive Director, Head Financial Intermediaries Singapore
UBS

Aniruddha has been with UBS for over 10 years across Hong Kong, Mumbai and Singapore. He has worked in a wide range of roles such as internal strategy, leading a domestic wealth management build-out initiative, and in the Chief of Staff function covering Malaysia, Thailand, the Philippines, the Non-Resident Indian sector and international markets, before moving to the Financial Intermediaries business. He took over the management of the Financial Intermediaries business for the Singapore hub in early 2017.

Prior to UBS, Aniruddha worked in management consulting in Sydney and Mumbai at Ernst & Young, Bain & Company and The Boston Consulting Group.

WINNIE LEE
Managing Director; Country Team Head (Hong Kong); Hub Head GFIM (Hong Kong)
UBS

Winnie joined UBS at the end of 1997 as a client advisor in the Hong Kong marketing team servicing HNW clients. She took up a management position in 2000, and in 2003/2004 pioneered several projects in the financial intermediaries and entrepreneurial segments for the Hong Kong market.

In 2008 she became the Country Team Head (Hong Kong) and has since continued to grow the team to cover both UHNW and HNW clients. Winnie has also held the role of Hub Head GFIM (Hong Kong) since January 2017.

Prior to joining UBS, Winnie worked for Citigroup Private Bank as a relationship manager.

STEFANO VERI
Group Managing Director, Head Global Financial Intermediaries
UBS

Stefano started his career at UBS in 1981. Having served as client advisor for corporate and wealth management clients in Switzerland and New York, he has also covered a wide range of line management position in several areas of wealth management.

Stefano was Head of HNW and UHNW business for Italy International before being appointed Head of the firm's UHNW business in Switzerland.

Prior to his current role, which he took up in 2015, Stefano led Wealth Management Europe International (the European cross-border business out of Switzerland and Singapore). He was appointed Group Managing Director in 2014.

EDITORIAL PANEL

NITIN BIRLA
Co-Founder & CEO
Griffin Asset Management

Nitin is Co-Founder & CEO of Griffin Asset Management, recently established in January 2017. A banker for 28 years, Nitin started his career with Citibank in India as a branch manager, before moving to Hong Kong to head up the Non-Resident Indian business.

In 2000, he joined BNP Paribas Private Bank as SVP, going on from late 2001 to 2015 to establish and run NRI businesses for Coutts, Barclays & Bank of China (International) in Hong Kong. He joined Standard Chartered Bank as NRI Team Head in 2015 and in late 2016 co-founded his own firm.

Based in Hong Kong since 1994, Nitin has developed close relationships with several HNW families in the region as well as a deep understanding of its wealth management sector.

JESSICA CUTRERA
Founding Partner
The Capital Company and The Protection Company

Jessica is a Founding Partner, Responsible Officer and Compliance Officer at The Capital Company, a new independent asset manager formed at the beginning of 2017. Prior to her time at The Capital Company, Jessica helped to found EXS Capital Asia, building a substantial asset management practice which is part of the core of the Capital Company. An expert in many areas including tax and estate planning, her unique niche is catering to Americans living in Asia.

Jessica separately manages an American-oriented wealth management practice in Asia, where her team specialise in providing fee-based comprehensive wealth management and planning services to US citizens expatriated in Asia, and to persons with US-related planning needs. During the last 14 years, Jessica has built a comprehensive wealth management service from the ground up and established an active presence across Asia-Pacific.

KENNETH HO
Managing Partner and Founder
Carret Private Investments

Kenneth is a Founder and Managing Partner of Carret Private Investments, a joint venture with Carret Global. Founded in 2016, Carret Private is a leading boutique wealth management and customised institutional asset manager in Asia.

Prior to Carret Private, Kenneth worked for Bank Julius Baer from 2006. As head of the investment solutions group for Asia, he managed all of the advisory, discretionary management, asset management, and wealth and tax planning franchises.

Prior to joining Julius Baer, Kenneth was head of products for another global private bank and, before that, an investment banker with Salomon Brothers Inc.

ANTHONIA HUI
Chief Executive
AL Wealth Partners

Anthonia is the Co-Founder of AL Wealth Partners, a specialty firm providing independent wealth advisory, fund management and multi-family office services. As a trusted advisor to families, Anthonia manages multiple generations of wealth and takes on board key family office functions.

Anthonia was formerly a banker at international banks including Coutts, Credit Suisse, BNP Paribas and Citigroup, with over three decades of experience in private banking, wealth management and family offices in London, Paris, Zurich, Hong Kong and Singapore.

Anthonia co-founded the Association of Independent Asset Managers in Singapore (AIAM), a professional body of independent asset management firms, to support Singapore's drive to be a leading global wealth management centre.

LUCIE HULME

Managing Partner
TriLake Partners
Honorary Secretary
Association of Independent Asset Managers (Singapore)

Lucie is Managing Partner and member of the Investment Committee at TriLake Partners. She was part of the team that founded TriLake Partners in 2011 and has years of experience gained in the independent asset management and private banking industry.

Lucie is also honorary secretary of the Association of Independent Asset Managers in Singapore.

Prior to joining TriLake Partners, Lucie was a relationship manager at Société Générale Private Banking (Suisse). She also worked on the Middle Eastern desk at Crédit Agricole (Suisse) and for The Forum Finance Group (Suisse), an independent asset management firm based in Geneva.

STEVE KNABL

COO & Managing Partner
Swiss-Asia Financial Services
President
AIAM Singapore

Joining Swiss-Asia in 2008, Steve's responsibilities encompass deal and project negotiation and structuring of funds and private wealth management deals in Asia. His experience has led him to acquire extensive product knowledge in diverse businesses and business processes.

Steve is a Swiss national with 18 years of extensive experience in the wealth management, alternative fund management and financial services fields, and is the current President of the Association of Independent Asset Managers in Singapore. He is a guest lecturer at the Singapore Management University (SMU) MBA hedge fund class, providing insights on the hedge fund industry, and is a frequent speaker at international wealth management conferences and forums in Asia.

PHILIPPE LEGRAND

Chief Executive
London & Capital Asia

Philippe is CEO and Founding Partner of London & Capital Asia, an award-winning multi-family office that services HNW clients as a one-stop solution for all their needs, spanning wealth management, corporate advisory and wider issues like family governance and succession.

Philippe has accumulated 30 years of senior management experience with international banks in private, corporate and investment banking. He developed the Asian private banking platform for Rabobank/Sarasin in the late 1990s and subsequently headed the North Asian private banking operations of ABN AMRO. He was previously deputy CEO of BNP Paribas Wealth Management, North Asia, a group for which he worked for over 13 years. Based in Hong Kong since 1995, Phillipe has also worked in Europe, North America and India.

JOHAN RIDDERGARD

Managing Partner
Lioncrest Global

Johan is a Managing Partner and Co-Founder of Lioncrest Global, an investment and advisory firm offering its clients unique investment opportunities.

Johan has more than 20 years of wealth management, life insurance and management consulting experience. He was a Managing Director and Head of the APAC CEO Office at UBS Wealth Management, responsible for Strategy & Business Development, Pricing Management, Business Change Management, Client e-Channels, Client Advisor Workspace, Client Information Insights, Business Management and Internal Communications. Prior to his 12 years at UBS, he worked with regional business development at Winterthur Life Asia, and as a management consultant at McKinsey & Company. He has been based in Asia since 1999, working across the region, and now resides in Singapore.

MARK YEANDLE

Associate Director

Z/Yen Group

Mark is the lead author and co-creator of the Global Financial Centres Index (GFCI) published by Z/Yen Group. The GFCI has been published every six months since March 2007 and Mark has been lead author of the GFCI since its inception. As a result of his research into city competitiveness, Mark is regularly interviewed on international television and has spoken at international conferences in Bogotá, Busan, Casablanca, Cayman Islands, Edinburgh, Istanbul, London, Montreal, Moscow, Seoul, and Shenzhen. Mark has conducted in-depth research studies into all the centres above and others including Casablanca, Copenhagen, Doha, Dubai, Guernsey, Jersey, Shanghai and Toronto.

Mark's previous experience includes company acquisitions and disposals, and he has project-managed four successful company turnarounds.

ALEXANDER ZEEH

CEO

S.E.A. Asset Management

Alex has more than 20 years of industry experience, in both investment banking and private banking.

He has previously worked with Robertson Stephens & Co in San Francisco, Morgan Stanley in Zurich and UBS Investment Bank in Frankfurt, as well with Credit Suisse and Bank Julius Baer in Singapore. He gained his work experience in the US, Switzerland and Germany before moving to Singapore.

SPECIAL THANKS

WealthBriefingAsia and UBS would like to extend special thanks to all the EAMs who contributed to this research in addition to the Editorial Panel, both in giving interviews and participating in our survey.

We would also like to thank the following organisations and individuals for contributing invaluable information and insights:

- Monetary Authority of Singapore
- Z/Yen Group
- Dominic Volek, Managing Partner of Henley & Partners Singapore and Head of Southeast Asia
- Thomas Koechli, Director, HP Wealth Management

EXECUTIVE SUMMARY

1. EAM MARKET SHARE EXPECTED TO INCREASE SIGNIFICANTLY; OVERWHELMINGLY POSITIVE EXPECTATIONS FOR NEW BUSINESS LAUNCHES

A majority of around seven in ten respondents believe that no more than 10% of assets are in the hands of EAMs in their location currently: 44% of participants overall placed EAM assets at 1-5% of the total wealth being managed in their location, while 26% estimated higher at 6-10%.

However, overall, only 2% of respondents see their market share remaining in the 1-5% band, with 37% forecasting 6-10% by 2022 and 26% predicting 11-15%.

Just as last year, Asian EAMs are overwhelmingly positive on their sector's growth in terms of new business launches: 77% of the 2017 cohort see the number of new EAMs in their location increasing over the coming three to five years (2016: 80%).

2. ASIAN WEALTH HUBS SEEN AS STRONG GLOBAL CONTENDERS; INTERNATIONAL CLIENTS CENTRE STAGE, BUT CROSS-BORDER REGULATIONS A GROWING CHALLENGE

Almost nine in ten respondents believe their location is a politically and economically stable centre for global financial assets that is well positioned to compete on the global stage.

Over nine in ten survey participants are serving international clients to at least some degree – and for a great many they are a main revenue source: 32% report an equal domestic/international split, 43% are working mostly with international clients and 6% only work with HNWIs from outside their location.

This year's study shows quite a leap in how serious a constraint cross-border regulations are perceived to be. In 2016, an already high 60% of respondents said they believe cross-border regulations reduce the number of markets EAMs can acquire clients in; in 2017 this proportion rose to 69%.

3. LONG-LASTING RELATIONSHIPS AND TRUST THE FOUNDATION OF THE EAM VALUE PROPOSITION; BEST EXECUTION AND EFFICIENT PROCESSES ALSO BIG DRIVERS OF SUCCESS

Offering clients a long-lasting, trusted relationship was voted the most important part of the EAM value proposition by a majority of 47% of respondents (last year this ranked second behind expertise of investment advice).

Great emphasis was placed on best execution and efficient processes by EAMs classifying themselves as professional fund managers, almost half of whom gave this top ranking. However, the fact that 9% of respondents overall placed this first underscores just how important up-to-date technology and efficient systems are across EAM business models.

4. BROAD AND DEEP INVESTMENT EXPERTISE A PRIMARY DRAW FOR CLIENTS, INCLUDING A WIDE RANGE OF ALTERNATIVES

Expertise of investment advice may have slipped to second place in importance this year, but still scored very strongly with 35% of the votes again.

When asked to identify the top products used by their clients, Asian EAMs ranked equities convincingly at number one with 74% of the votes, followed by bonds (69%) and funds (59%).

However, structured products figured highly at 33%, and were mentioned by several contributors as a popular client choice. Hedge funds also form a relatively significant part of the EAM asset mix at 17%, with private equity following at 13%.

5. REAL VARIATION IN EAM REVENUE STREAMS, WITH SIGNIFICANT REGIONAL DIFFERENCES SHOWN

As in 2016, fees for asset management/advisor services and revenue share of brokerage and commissions were identified as the two most important elements of the EAM revenue mix.

Similar to 2016, asset management/advisor fees were significantly in the lead this year, receiving 86% of the votes, while revenue share of brokerage and commissions was higher at 60% versus 46%.

Here, sampling differences are clearly at play, with EAMs in markets outside the main hubs showing significantly higher reliance on revenue sharing. Respectively, just 6% and 4% of Singapore and Hong Kong-based firms identified trail commissions as a top revenue stream, versus 13% in other markets.

6. GREAT VARIATION SEEN IN MANAGEMENT FEES; PERFORMANCE FEES RISE IN IMPORTANCE, ESPECIALLY IN EMERGING MARKETS

Almost four in ten respondents charge an annual management fee of 51-75 bps, with the next most populous segment being those levying 101-125 bps at 28% and very few charging above this level. At the lower end of the spectrum, 17% of EAMs charge an annual management fee of 26-50 bps and 11% one of 25 bps or even less. Performance fees received 36% of the votes on the two most important revenue streams, up from a quarter in 2016. Almost a third of respondents include a performance fee as part of their management fee and in nascent centres like the Philippines and Thailand this figure rises to 50%.

Going forward, our experts predict a reduction of commissions on transactions to allow for performance fees to come more to the fore, alongside fees for advice.

7. MOST FIRMS "TRADITIONAL" MODEL, BUT INTERESTING REGIONAL VARIATIONS SEEN AGAIN; MANY EVOLVING INTO A LARGER EAM WITHIN FIVE YEARS

"Traditional" EAMs accounted for the bulk of our sample, comprising almost half, while single and multi-family offices made up almost three in ten firms. Interestingly, respondents in Hong Kong leaned towards the multi-family office model (58%), whereas those in Singapore were most likely to be traditional EAMs (56%).

A third of respondents do not see their business model changing substantially in the next three to five years, yet 37% see their business growing into a larger EAM (this is even greater in emerging markets, at 50%).

Just under a fifth of participants have been in business for less than two years, with (predictably) recent launches being far more prevalent in markets outside Singapore and Hong Kong.

8. EAMS CONSOLIDATING ASSETS WITH FEWER CUSTODIANS; SHARP GROWTH IN THOSE CUSTODISING MORE THAN 60% OF ASSETS WITH THEIR MAIN BANK PARTNER

There seems to be a trend towards fewer, more concentrated custodian relationships. In 2016, 50% of respondents said they were only working with up to five banks, while this proportion rose to 57% this year; correspondingly, the proportion working with 11 or more fell from 20% to 13%.

In 2016, a quarter of EAMs reported placing less than 20% of assets with their primary custodian, compared to 14% saying as much this year. Significantly, 18% of EAMs custodise more than 60% of total client assets with their main institution, rising from a tenth last year.

9. QUALITY OF SERVICE AND TECHNOLOGY TOP BRAND AND REPUTATION IN CUSTODIAN CHOICE

Quality of service is the biggest factor in custodian selection. Three-quarters of respondents said that this was of maximum importance in their decision, way ahead of the second and third most important factors: efficient technology and processes, and the brand and reputation of the bank.

While sub-optimal technology platforms and interfaces are not EAMs' biggest pain point when working with custodians, inadequacies in these areas are a significant area of concern: 71% of respondents said that poor platforms and interfaces were a significant or critical pain point. Indeed, many see technology provision as the battleground for EAM business as competition heats up.

10. ONBOARDING AN EVEN GREATER PAIN POINT THIS YEAR, AND PRICING MUCH MORE SIGNIFICANT THAN IN 2016

Time-consuming client onboarding processes are by far the biggest pain point EAMs experience when working with custodians. In fact, it seems that the onerousness in this area has significantly increased: while in 2016 48% of respondents saw this as a severe pain point, 71% do today.

The pricing of custodian services has more than doubled in importance since last year to now stand second in EAMs' rankings of top concerns (36% compared to 17%). So, while pricing may not vary hugely in Asia currently, EAMs are likely to be focusing on even small differences more and more – particularly as fuller fee and cost disclosure to clients comes into view.

SECTION ONE

ASIA'S EAMS SET TO GO FROM STRENGTH TO STRENGTH

A SNAPSHOT OF ASIA-PACIFIC'S ADDRESSABLE H/UHNW MARKET

As with any wealth management market, External Asset Managers in Asia-Pacific form part of a far broader ecosystem of financial services providers, whose growth and future evolution is a function of the addressable market – that is to say, the wealth available to be managed, the openness of authorities to that activity and how far demand has been created (and nurtured) among the prospective High/Ultra High Net Worth client base.

Any assessment of EAMs' growth prospects should therefore begin with an evaluation of the region's current wealth landscape.

Asia-Pacific overtook North America in HNW wealth terms for the first time in 2015, and UHNWIs in Asia-Pacific expanded their ranks and wealth more quickly than all other wealth bands. The fact that Asia-Pacific wealth is tipped to surpass US$42 trillion by 2025 explains why the region is such a priority for global wealth managers[1].

Growth in Asia-Pacific's UHNW population has been particularly impressive, rising by 1.4% over 2015 to reach 51,515. The region came to represent 24.2% of the global UHNW cohort, against 43% for the Americas[2].

Meanwhile at the very upper echelons of wealth, the number of billionaires in Asia is expected to double in the next decade to 1,127, against 893 in North America[3].

In further good news, in 2015 Asia-Pacific's wealth management industry enjoyed a far greater degree of trust from HNWIs than in the previous year, although it has not yet succeeded in capturing the majority of assets: Asia-Pacific HNWIs are thought to hold less than one-third of their recorded wealth with wealth managers[4].

According to current industry thinking, each market's level of digital maturity will be a deciding factor in how fast formally-managed assets increase; digital capabilities are thought to be more important to Asia-Pacific investors than anywhere else in the world[5].

Asia-Pacific's wealthy are also the most internationally-focused investors globally, placing substantially more of their holding outside their home markets than investors elsewhere: in Q1 last year, 67.8% of HNWIs in the region said that they hold investments outside of their home country, against 52.7% for clients in the rest of the world[6].

Although the focus tends to be on the more mature wealth management centres of Singapore and Hong Kong (and to a lesser extent Malaysia), recent industry research has highlighted the growth prospects of "Emerging Asia".

Thailand, India, China and Indonesia are expected to be powerhouses in the expansion of Asia-Pacific's HNW population over the next decade, fuelling annualised growth of 12.6%. At these growth rates, it is predicted that Emerging Asia will overtake Mature Asia in HNW wealth terms by 2023[7].

In this case, total HNW wealth in Asia-Pacific would hit US$42.1 trillion, which would be *five times* the amount recorded in 2006[8].

EAMS CONFIDENT OF STRONG GROWTH IN MARKET SHARE

As with last year's report, our 2017 study shows wide-ranging estimates on how much private wealth is being managed by EAMs, and how much their market share is set to grow in the near term. Again, however, a majority of around seven in ten respondents believe that no more than 10% of assets are in the hands of EAMs in their location currently.

This year, 44% of participants overall placed EAM assets at 1-5% of the total wealth being managed in their location and 26% estimated higher at 6-10%. Last year, both bandings recorded 36% each. However, this difference is likely attributable to this year's inclusion of EAMs in centres where the model is in a far earlier stage of evolution.

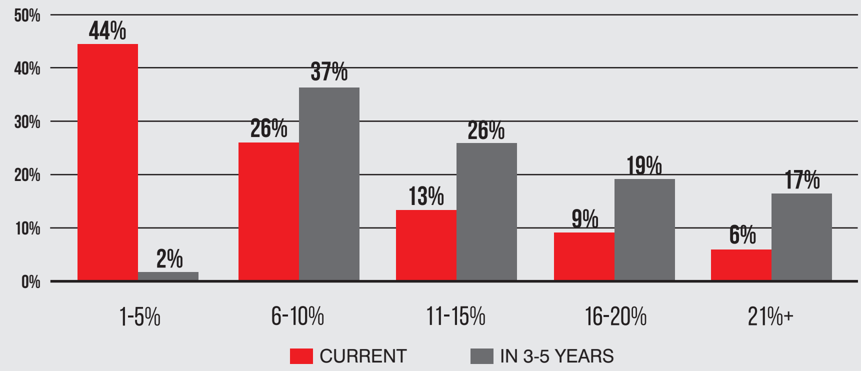
In 2016, an overwhelming 90% of survey participants expressed a belief that EAMs' market share would increase in the next three to five years and this optimism is still holding strong.

This year, almost all those respondents (44%) that estimate current EAM assets as up to 5% of the total see significant growth in the next three to five years. Overall, only 2% of respondents see their market share remaining in the 1-5% band, while a majority of 37% forecast 6-10% by 2022 and 26% are predicting 11-15%. As Figure 1 shows, many EAMs are even more bullish on their sector's growth prospects, although how realistic this is remains to be seen.

The current and future estimates of EAM market share found by this study align closely

FIGURE 1

Estimated EAM market share



with current industry thinking: the broad consensus seems to be that independent advisors are managing a maximum of 5% of private client assets across Asia, although many are predicting strong double-digit growth to perhaps 10% in the next few years.

While these figures are still fairly modest, Stefano Veri is confident of strong gains on the basis of how the segment's growth has quickly taken hold elsewhere in the world.

"Our own numbers, along with what independents and our competitors say, suggest EAM assets account for 2-4% of formally-managed wealth currently," he said. "However, I'm expecting this to climb to at least 10% of wealth in the coming five years - in line with what we have seen in Switzerland, but also the trajectory other European countries have taken in the last 10-20 years."

Aniruddha Ganguly agrees the growth prospects for the sector are bright. "There are a number of reasons: first is the overall growth of wealth in the Asia-Pacific region, which even in a bad year is in the 5-6% range; second is the compounding share of EAM-managed assets," he said. "While this is coming off a reasonably low base, given the example of Switzerland most see it growing to at least 10% within the next five years."

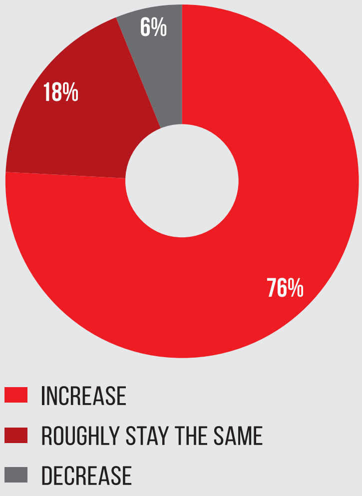
If the parallels in development expected by Veri and Ganguly do indeed transpire, Asia's EAMs could come to win a very much more substantial portion of the addressable market on a longer-term view.

Research by *WealthBriefing* and other organisations suggests that EAMs manage up to 20% of the private wealth in Switzerland[9]. The independent model is very well-established in the Alpine state and there is an accommodative regulatory regime (at least at present) where, while FINMA has ultimate control, oversight is largely delegated to a number of Self-Regulatory Organisations (SROs). These factors have led to several thousand independent asset managers being in operation in Switzerland.

"OUR OWN NUMBERS, ALONG WITH WHAT INDEPENDENTS AND OUR COMPETITORS SAY, SUGGEST EAM ASSETS ACCOUNT FOR 2–4% OF FORMALLY–MANAGED WEALTH CURRENTLY."

MORE EAM LAUNCHES ON THE HORIZON

FIGURE 2
Predicted change in the number of EAMs in 3-5 years



Just as last year, Asian EAMs are overwhelmingly positive on their sector's growth in terms of new business launches. Over three-quarters (76%) of the 2017 cohort see the number of EAMs in their location increasing over the coming three to five years (2016: 80%). The generally low profile kept by EAMs, along with the broad swathe of firms that might arguably come under this banner, means that arriving at absolute numbers is a challenge compounded by the difficulty of tracking smaller, newer firms. However, general opinion suggests that Singapore currently has no more than 200 true EAMs in operation and Hong Kong no more than 100.

Significantly, there has been small but appreciable growth in the proportion of survey participants foreseeing EAM closures in the next three to five years - to 6% from nil in 2016.

As discussed on p29, industry experts are predicting that regulatory moves towards greater transparency will cause a dramatic shake-out of smaller players that are more reliant on commissions and trail fees for their revenues. More broadly, many see consolidation accelerating off the back of the heavy infrastructure and personnel investment increased regulation requires.

THE EAM MODEL: STRONG APPEAL FOR EXPERIENCED, ENTREPRENEURIAL BANKERS

Of course, much of the EAM sector's growth potential depends on the number of experienced bankers looking to establish an independent advisory firm, or to join an established one. Here again, the future looks bright as the EAM model gains traction and prestige, Winnie Lee (and others) explained. "There are some experienced and knowledgeable senior private bankers - who have been in the industry for a long time and have great client connections - who are looking into opportunities to expand their career and take it to the next level," said Lee. "Increasingly, they see the EAM business as one of their top choices for further career development and a logical next step."

Importantly, in the dominant markets many see the expansion of existing EAMs being perhaps a stronger trend than the launch of entirely new entities.

As Lucie Hulme explained, experienced bankers wishing to transfer a cache of loyal clients over to an independent advisory model may see joining forces with an established EAM a more pragmatic (and quicker) route. "I think many of the players who will join our industry will tend to prefer to merge with an existing firm instead of establishing a new shop due to the increase in regulatory pressure here in Singapore," she said.

As the expert panel pointed out, the strict stance necessarily taken by the Singaporean regulator means that the barriers to entry may be too high for some bankers wishing to establish new EAMs today.

The MAS' stated capital requirement for a Registered Fund Management Company is S$250,000 and S$1 million for licensed fund managers who offer collective investment schemes to retail clients. According to some contributors, this means that realistically an RFMC would need at least US$100 million in assets, with those seeking a full Capital Markets Services Licence needing US$300-500 million as a minimum (12% of our 2017 sample held the former amount, against 51% holding the latter: see p39). Then, there are of course significant running costs for new firms to meet, even before revenues are coming in.

As regards timeframes, while the time quoted by the MAS for processing a licensing/registration application is four months, our contributors observed that this can sometimes take up a few months more in practice – through no fault of the regulator – because further requisitions or clarifications on the submission documentation are required from the company. (It should be said here, however, that shorter processing times were implemented in the months immediately preceding the publication of this report.)

"Getting the licence to be independent and set up as an independent can take six months in total, but even once you have it you need all the infrastructure in place, which is very high cost," said Steve Knabl. "Your burn-rate can be very high, depending on how big your set-up is."

FURTHER CLIENT EDUCATION STILL REQUIRED

While the outlook for EAMs is generally very optimistic, the contributors to this report emphasised that the model still has a way to go in gaining client acceptance in the region.

On this point, Johan Riddergard said: "We believe EAM market share will increase significantly over time. But the development will be very gradual due to the fact that most Asian private banking clients are still new to the concept of an independent asset manager. It will be an educational process."

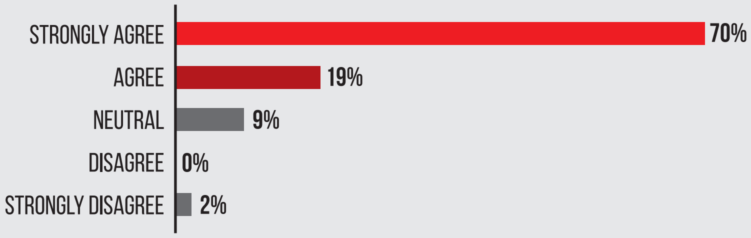
As last year's report discussed, fee-based advice (under discretionary permissions) is still a new concept for Asian investors generally, although the attractions of an independent, long-term advisor serving a smaller number of clients are becoming rapidly recognised.

Yet Philippe Legrand pointed to a further attraction for clients that perhaps the sector should be promoting more: a truly holistic wealth view that encompasses all assets, including property and business investments.

"Service is clearly the number one attraction, but the second reason clients are coming round to this model is the consideration of non-liquid assets.

"If you look at asset allocation, banks tend to focus on the liquid assets held within that particular institution, but clients mostly multi-bank and have numerous non-liquid assets," he said. "An EAM can take a far broader view, leading to more fruitful discussions on the overall wealth picture."

FIGURE 3
Is your location a competitive centre for global financial assets?



ASIAN CENTRES' ATTRACTIVENESS STILL RATED HIGHLY

The EAMs surveyed for this report remain overwhelmingly positive on their centre's attractiveness, with 89% of respondents agreeing that their location is a politically and economically stable centre for global financial assets that is well positioned to compete on the global stage (2016: 90%).

Those *strongly* agreeing with this statement fell from 85% to 70% and a very small degree of disagreement crept in (2% from nil in 2016). However, again this may be due to this year's inclusion of EAMs from emerging Asian markets: while the markets surrounding Hong Kong and Singapore are working hard to compete with the two powerhouses, they are of course playing catch-up on decades of development.

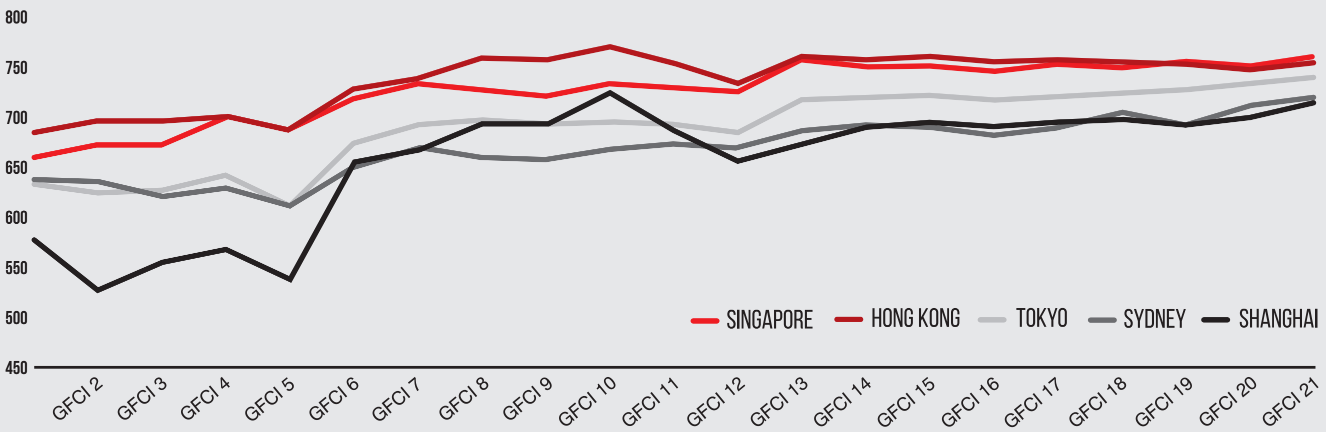
Generally, however, Asian financial services centres have made, and continue to make, stunning progress in rising up the global rankings of attractiveness in financial services professionals' eyes.

ASIA'S CENTRES STORMING UP THE GLOBAL RANKINGS

FIGURE 4A
Z/Yen's Global Financial Centres Index Top Ten (GFCI 21, March 2017)

1	London	782
2	New York	780
3	Singapore	760
4	Hong Kong	755
5	Tokyo	740
6	San Francisco	724
7	Chicago	723
8	Sydney	721
9	Boston	720
10	Toronto	719

FIGURE 4B
Singapore and Hong Kong's pre-eminence and the rise of other Asia-Pacific centres



(Source: *Z/Yen Group's Global Financial Centres Rankings to March 2017)*

FIGURE 4C

Z/Yen Group GIFC Index, September 2016 versus March 2017 for Asia-Pacific centres

City	GFCI 21 Rank	GFCI 21 Rating	GFCI 20 Rank	GFCI 20 Rating	Change in Rank	Change in Rating
Singapore (Republic of Singapore)	3	760	3	752	0	▲8
Hong Kong (China - Special Administrative Region)	4	755	4	748	0	▲7
Tokyo (Japan)	5	740	5	734	0	▲6
Sydney (Australia)	8	721	11	712	▲3	▲9
Shanghai (China)	13	715	16	700	▲3	▲15
Osaka (Japan)	15	712	17	699	▲2	▲13
Beijing (China)	16	710	26	683	▲10	▲27
Melbourne (Australia)	21	702	24	687	▲3	▲15
Shenzhen (China)	22	701	22	691	0	▲10
Seoul (South Korea)	24	697	14	704	▼10	▼7
Taipei (Taiwan)	26	689	21	692	▼5	▼3
Kuala Lumpur (Malaysia)	35	659	43	638	▲8	▲21
Bangkok (Thailand)	36	656	39	642	▲3	▲14
Guangzhou (China)	37	650	-	-	-	-
Qingdao (China)	38	649	46	631	▲8	▲18
Busan (South Korea)	50	626	41	640	▼9	▼14
Mumbai (India)	63	612	75	598	▲12	▲14
Manila (The Phillippines)	65	610	78	595	▲13	▲15
Jakarta (Indonesia)	67	608	76	597	▲9	▲11
Dalian (China)	75	597	48	629	▼27	▼32

(Source: *Z/Yen Group's Global Financial Centres Rankings)*

The March 2017 Global Financial Centres Index by Z/Yen Group shows that the top five global hubs remained unchanged from last year, as London, New York, Singapore, Hong Kong and Tokyo (in financial services professionals' minds).

However, there have been interesting changes within this (and the full ranking of the 88 centres) which are very positive for Asian ascendancy – and not just for Singapore and Hong Kong.

Firstly, the big geopolitical shocks of Brexit and the US Election were found to have made significant dents in the attractiveness of both London and New York as financial centres, with these falling 13 and 14 points, respectively, in the latest GIFC.

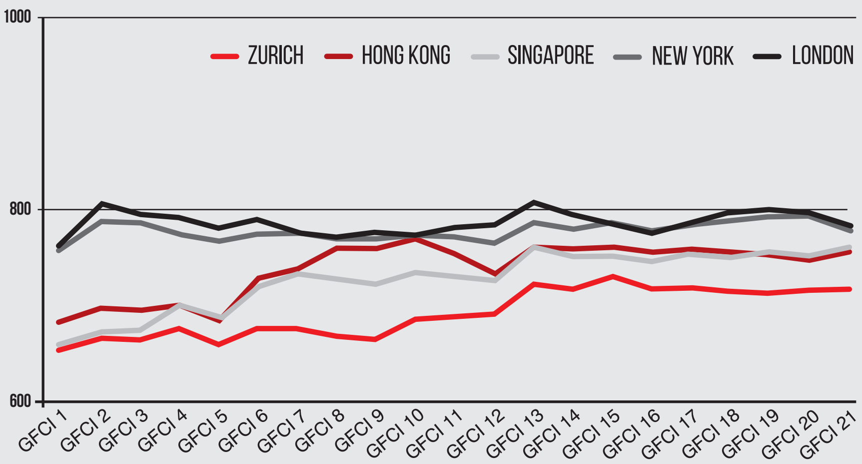
At the same time, of real note is the rate at which third-place Singapore closed on second-place New York: Singapore rose by eight points and is now only 20 points behind New York, having lagged by 42 points in GFCI 20.

As Figure 4C shows, Singapore and Hong Kong are the third and fourth highest-rated financial service centres globally, out of a ranking of 88. Yet, other Asia-Pacific financial centres also powered ahead, with the rise of Beijing and Shanghai standing out in particular. (For more on the rise of Chinese centres see p23.)

Mark Yeandle, Associate Director at Z/Yen Group, said: "The main centres in Asia continue to make progress, with the top nine centres in Asia all seeing an increase in their ratings in GFCI 21. A good example of this is at the top of the index where Singapore and Hong Kong were over 100 points behind New York and London a few years ago. In GFCI 21, third-placed Singapore was only 20 points behind second-placed New York."

FIGURE 4D

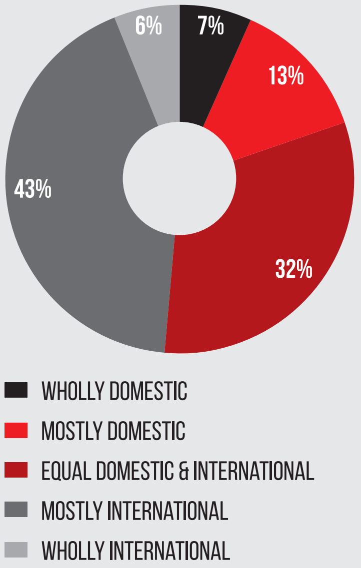
The rise of Hong Kong and Singapore as London and New York fall in attractiveness



(Source: *Z/Yen Group's Global Financial Centres Ranking – APAC vs Western Centres 2017)*

THE EAM CLIENT BASE AND THE IMPACT OF CROSS-BORDER REGULATION

FIGURE 5
EAM client domiciliation



As might be expected given our focus on Asia's two leading International Financial Centres, over nine in ten respondents to our survey are serving international clients to at least some degree – and for a great many they are a main revenue source: 32% report an equal domestic/international split, 43% are working mostly with international clients and 6% only work with HNWIs from outside their location. (In 2016 40% reported an equal international/domestic split, with 45% mostly international and 10% solely serving clients outside their jurisdiction, which again likely reflects the inclusion this year of EAMs from markets outside Hong Kong and Singapore.)

Given this focus on international clients, it is unsurprising that maintaining regulatory compliance with a number of countries' authorities is seen as a significant challenge by EAMs.

In fact, this year's study shows quite a leap in how serious a constraint cross-border regulations are perceived to be. In 2016, an already high 60% of respondents said they believe cross-border regulations are acting to reduce the number of markets EAMs can acquire clients in; in 2017 this proportion rose to 69%.

The explorations of various Asian markets set out in the next section highlight many instances of strong growth potential. But while these may be very attractive, pursuing business in these countries – or even setting up physically within them – will not be without its challenges for wealth managers of any kind. Clearly, the very much smaller compliance functions EAMs generally have may make these barriers to entry a lot higher (and even insurmountable in some scenarios). "Cross-border regulation will always have a huge impact on how you can conduct business," observed Johan Riddergard. "An established cross-border framework can be very conducive or restrictions might be so severe that a market shouldn't be serviced at all."

Nor is the landscape static, making it difficult for even the largest organisations to work across multiple simultaneously evolving markets.

As one contributor put it: "Cross-border business might entail several levels of tightening, differing – and possibly conflicting – regulations, many of which are increasingly insular and aimed at locking money within the country."

Moreover, tax regulations are creating significant additional complexity on top of rules directed purely at wealth management business, with the Indonesian tax amnesty cited by several contributors as a particular source of difficulty.

Interestingly, however, one Singapore-based consultant to the industry argued that although the divergence of regulatory regimes across Asia can create real complexity for wealth managers, this may also represent an *opportunity* for EAMs in particular, due to their greater flexibility.

"The regulations in some markets simply don't allow for the more complex structures, so what you have is not really wealth management in the strict sense, but rather higher interest-bearing accounts, fixed deposits or some sort of Islamic fund.

"That's the first real challenge for wealth managers wanting to work cross-border, but here EAMs might have a natural advantage in being able to say I can go back to a suitable level of service or advice if you can only invest in certain products."

More broadly, Stefano Veri foresees tightening (and perhaps protectionist) regulation potentially spurring the growth of domestic EAMs within a number of countries.

Cross-border business may be beset with increasing regulatory complexity that means domestically-managed wealth is likely to increase. Yet international business will remain vitally important to EAMs, and here custodian banks can act as real facilitators in this regard, our expert panellists said.

Summing up how the relationship should work, Aniruddha Ganguly said:

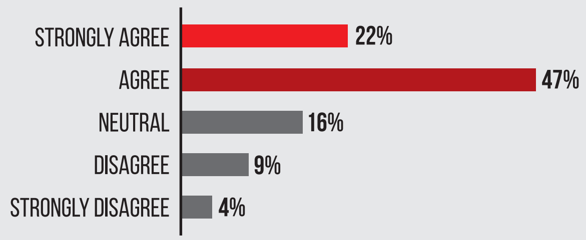
"As regulated and licenced entities, financial intermediaries obviously bear direct responsibility themselves, but it is incumbent on custodians to serve as a partner to them on their risk and compliance journey, and help them in areas like international booking and the Common Reporting Standard.

"We can help them understand what works and what doesn't on the custodian platform and they can use that as a good proxy for regulations in general.

"As well as access to a platform, the bank-EAM relationship should be about knowledge sharing and working in a collaborative spirit to help independents navigate international markets."

> "CROSS-BORDER BUSINESS MIGHT ENTAIL SEVERAL LEVELS OF TIGHTENING, DIFFERING – AND POSSIBLY CONFLICTING – REGULATIONS, MANY OF WHICH ARE INCREASINGLY INSULAR AND AIMED AT LOCKING MONEY WITHIN THE COUNTRY."

FIGURE 6
Do cross-border regulations reduce the number of markets EAMs can acquire clients in?



IN FOCUS:

THE MONETARY AUTHORITY OF SINGAPORE: A PARTICULARLY SUPPORTIVE REGULATOR

The EAM model continues to rapidly gain traction among clients, custodian banks, bankers and regulators, with support from the latter as "gate-keepers" clearly the most important part of the puzzle.

Encouragingly, Singapore, the largest centre for EAMs in Asia, has shown itself to be very supportive indeed of the sector - not only allowing such business to flourish, but also giving EAMs a voice very much equal to that of the banks in an active dialogue with the Monetary Authority of Singapore.

While the Singaporean regulator is strict, several panellists also pointed out how pragmatic it has been in promoting EAM-custodian collaboration, not only in terms of giving clients what they want, but also in promoting smooth yet robust compliance procedures.

"Singapore continues to be one of the most favoured destinations for EAMs to operate in Asia. EAMs form an important part of our wealth management ecosystem, providing an additional avenue for (ultra) high net worth individuals to seek advice from," a spokesperson for the MAS said.

"In this age of greater financial transparency through Automatic Exchange of Information and the Common Reporting Standard, the partnership between the EAMs and custodian banks is even more crucial when it comes to client onboarding, transaction handling and monitoring, to ensure compliance with regulatory and cross-border requirements."

Here Anthonia Hui gave the following example of its sensible approach, saying:

"The MAS has caught up fast on its working knowledge of how EAMs work and is very open to our input. Through the AIAM we have a direct exchange on issues that might impact on EAMs, our clients and Singapore as a financial centre. When we put forward a constructive opinion, the MAS is very willing to put that into the framework.

"For example, when we spoke about the Automatic Exchange of Information that will be implemented in 2018 under CRS, they recognised that since EAMs don't hold custody of clients' assets in our own right it would be a duplication of effort to expect EAMs to do the same reporting as a custodian bank would do, and so took us out of scope as reporting financial institutions.

"This shows just how pragmatic the MAS is to build a constructive working relationship with the industry and the recognition EAMs, through the AIAM, have gained in the eyes of the regulator for the value we can add to the industry."

> "THE MAS HAS CAUGHT UP FAST ON ITS WORKING KNOWLEDGE OF HOW EAMS WORK AND IS VERY OPEN TO OUR INPUT. THROUGH THE AIAM WE HAVE A DIRECT EXCHANGE ON ISSUES THAT MIGHT IMPACT ON EAMS, OUR CLIENTS AND SINGAPORE AS A FINANCIAL CENTRE. WHEN WE PUT FORWARD A CONSTRUCTIVE OPINION, THE MAS IS VERY WILLING TO PUT THAT INTO THE FRAMEWORK."

SECTION TWO

EAMS' PROSPECTS PAN-ASIA: PUSH AND PULL FACTORS IN KEY MARKETS

As all over the world, where they have been able to, Asia-Pacific's wealthy have had their assets booked and run both on- and offshore to varying degrees – with many pursuing the latter route as far as possible. Insufficient (or completely absent) wealth management provision is of course one reason, but other "classic" drivers have also been more pronounced for HNWIs in this part of the world: a desire for investment diversification and access to a wider service and product set have "pulled" assets to more developed financial centres at the same time as political risk has "pushed" money offshore and tax mitigation has kept it there.

The financial expertise and infrastructure that have blossomed in Singapore and Hong Kong over the past decades have created two international powerhouses for wealth management too – to the extent that the ongoing supremacy of Switzerland has come to be brought into question. Nor have other top IFCs like London and New York failed to evolve amid increasing competition from less developed (if not entirely new) wealth management hubs. All is to play for in international terms.

Tax transparency is proving a game-changer for IFCs, forcing them to re-imagine their value propositions amid seismic regulatory changes such as the CRS. Being a "low to no tax" jurisdiction is no longer enough to attract offshore assets, particularly when many governments are moving to keep money onshore and build up domestic wealth management industries of their own.

So, while Singapore and Hong Kong are set to dominate Asia-Pacific's wealth management scene for the foreseeable future, they face growing competition due to a number of factors.

Geopolitics, changing demographics and international and local regulation all make for a landscape for wealth managers that can change hugely from year to year.

As the following market snapshots make clear, there are a huge number of variables wealth managers must take into account when assessing the attractiveness of the various markets in which they might work. And, as a highly-specialised and generally less well-known sub-sector, this is even more the case for EAMs.

WEALTH TRENDS AND INVESTMENT PREFERENCES COMPARED

SINGAPORE

Steep declines in equity market capitalisation meant that Singapore (along with Malaysia) actually experienced negative HNWI population growth of 3.5% over 2015: it stood at 104,000, down from 107,000 in 2014. Meanwhile, total HNWI wealth fell by 2.9% from US$543 billion to US$527 billion[10].

As last year's report highlighted, Singapore's average assets were US$4.4 million per HNWI, putting it behind Malaysia, Hong Kong, China, Japan and Indonesia on this measure[11]. At around 2.2% a year, Singapore's CAGR in HNWI numbers has also been comparatively low, but this may be largely attributed to the huge head-start on other markets it has enjoyed.

Singapore's UHNWI population stood at 2,500 last year – a strong bounce-back from 2015 when the Republic shed 205 ultra-wealthy to leave its UHNWI population at 2,360. Between 2006 and 2016, UHNWI wealth has grown by 58% in Singapore, while 48% growth is predicted by 2026. (The comparative figures for Hong Kong are +50% and +40%)[12].

Alongside Hong Kong, Singapore's growth as an international booking centre has been incredible in past decades, with the two vying with each other (and other international hubs) for supremacy on the global stage.

Following the financial crisis, both Asian powerhouses benefitted from hundreds of billions of dollars of cumulative outflows from other centres and were in fact the only centres that attracted net new assets between 2008 and 2014[13].

Investment tastes in Singapore

Singapore's HNWIs have shown themselves to be highly growth orientated, with 42.6% saying that they prioritise investments that exhibit an above-average return potential, even if the asset seems expensive[14].

Investors in China and Indonesia are even more growth orientated, however they are also more internationally inclined. While 59.8% of Singapore's wealthy hold investments outside of Singapore, the proportions in China and Indonesia are far higher at 74.6% and 87.3% respectively – figures which underscore how big a motivator concerns about domestic economic/market risks can be[15].

It is also interesting to note that Singapore's HNWIs are significantly less inclined towards impact investing than those in other Asian markets. In Indonesia and Malaysia, respectively, investors put 45.8% and 43.6% of their portfolios to work for social or environmental good, while in Singapore this level falls to 32%[16].

Over 2015, the combined AuM of Singapore's asset managers grew by 9% to hit S$2.6 trillion (US$1.9 trillion) – an increase the MAS said could be almost entirely attributed to new asset growth. (Net inflows were S$203 billion)[17].

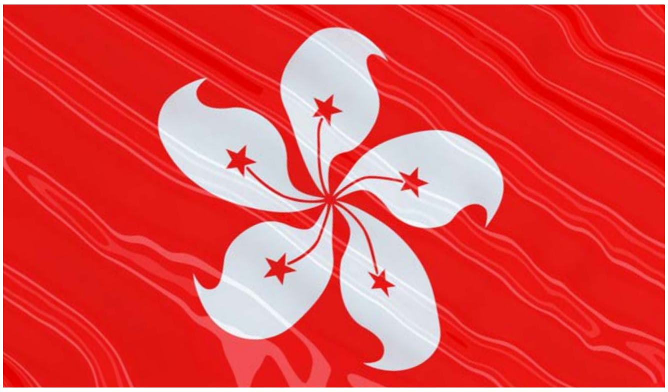
While traditional asset managers recorded only a modest 4% uptick, private equity/venture capital and real estate funds saw explosive growth of 40% and 80% respectively over 2015.

Of this, the MAS said: "The trends illustrate the crossroads facing the asset management industry. As public market returns disappoint, more investors are seeking excess returns from illiquidity and credit-risk premia in private markets. This has caused managers to search for new sources of value to deploy capital".

Overall, Singapore's asset management industry has shown a CAGR of 14% since 2010. Meanwhile, the alternatives sector (which garnered 41% of inflows in 2015) has been growing at 17%. Singapore is also known for its standing as a digital powerhouse internationally: in our last ranking, it came first in terms of its digital offering and also gained the highest score for its innovation in this area. Investors in Singapore will have especially high expectations in this regard[18].

"THE TRENDS ILLUSTRATE THE CROSSROADS FACING THE ASSET MANAGEMENT INDUSTRY. AS PUBLIC MARKET RETURNS DISAPPOINT, MORE INVESTORS ARE SEEKING EXCESS RETURNS FROM ILLIQUIDITY AND CREDIT-RISK PREMIA IN PRIVATE MARKETS. THIS HAS CAUSED MANAGERS TO SEARCH FOR NEW SOURCES OF VALUE TO DEPLOY CAPITAL."

HONG KONG



Hong Kong was home to 142,000 HNWIs in 2015, rising 3% from 138,000 the year before, with the wealthy population representing US$735 billion in investable assets (a 3.6% year-over-year rise)[19].

As last year's report noted, the average HNWI in Hong Kong has approximately $5.13 million in investable assets, with 1.89% of the overall population falling into this category. The increase of HNWIs in Hong Kong year-on-year is 11.2%, with their average wealth rising by 13.1%. This puts Hong Kong on a similar footing as Thailand and Taiwan in wealth growth terms, and convincingly ahead of Singapore on this measure[20].

Looking at which cities have the largest wealth concentration, last year Hong Kong ranked third globally, with only London and New York ahead and Singapore lagging several places behind[21].

Hong Kong has also been leading Singapore in UHNWI numbers: the former boasted 4,080 UHNWIs in 2016 to stand third globally, while the latter was in sixth place with 2,500. However, Singapore's UHNWI growth rate was stronger in the decade since 2006 and is predicted to continue to be so in the years to 2026[22].

Hong Kong is also very impressive in terms of mega-wealth. In 2016, it was home to 51 billionaires, rising from 48 the year before[23].

Hong Kong's ascent as an international wealth hub in the years since the financial crisis has been stellar. In the five years to 2014, its world market share rose from 3% to 7% off the back of 146% growth (+US$0.4 trillion) in cross-border client assets, while it also achieved the highest growth rate of net new assets in the period (US$0.29 trillion or 108% measured against its 2008 International Market Volume)[24].

Looking ahead, over a quarter of Asia-Pacific wealth managers (28.4%) believe that China will be the leading driver of global growth up to 2025, with Hong Kong providing strong support (8%) – which naturally bodes well for EAMs servicing both markets[25].

As Winnie Lee said: "With the opening up of the Chinese market and with Hong Kong being right on its doorstep, we see huge potential for financial intermediaries there over the next five years."

There are significant differences in investment tastes between the two that advisors will need to note, however: 63.3% of HNWIs in China are growth focused, against 46.9% in Hong Kong. Meanwhile, the former tend to allocate 40.8% of their portfolios to impact investments, compared to 38.3% in Hong Kong.

Politics and how internationally-orientated each centre is clearly also drives big differences: although 74.6% of HNWIs in China hold investments outside their home country, this falls to 65.4% for Hong Kong and further still to 59.8% in Singapore[26].

INDONESIA

While Indonesia is the third most populous of the markets under consideration in this research series, it has historically had among the lowest proportions of HNWIs (this has been put at only around 0.3% of the total).

Still, apart from China, Indonesia is enjoying the strongest relative level of growth in its HNWI population, as well as in their wealth. The average AuM per HNWI in Indonesia stands at $5.06 million, similar to levels seen in China and Japan[27].

As previously discussed, Asia-Pacific HNWIs are the most internationally-focused investors in the world, and five of the top six most globally-minded markets are located in Asia-Pacific (ex-Japan).

Indonesia tops this list, with 87.3% of HNWIs holding non-domestic investments; they are noted for being particularly concerned about avoiding risks in their home market (16.9% versus 12.5% for those in the more mature Asian jurisdictions)[28].

Indonesian investors are also particularly growth orientated, with 61.3% favouring investments that exhibit an above-average return potential[29].

Credit is also a key component of their investment portfolios. More than one quarter (31.1%) of HNWI assets in Indonesia are financed through credit, compared to only 18.2% in the rest of the world[30].

Like several other Asian centres, Indonesia has been trying to encourage the repatriation of assets to boost domestic growth, launching an ambitious Tax Amnesty Programme in July last year. While its ultimate success remains to be seen, the move was welcomed as laying the foundations for rapid development of the country's wealth management sector.

This is certainly needed. In last year's ranking of the maturity of wealth management services in each market, Indonesia scored 5, tied at the bottom alongside the Philippines and Thailand[31].

In another interesting development for wealth managers, in April this year Indonesia and Australia inked an agreement aimed at promoting innovation within both markets' financial services industries. It establishes a framework for cooperation between the two watchdogs, allowing them to discuss regulatory issues and market trends that arise from innovation.

Again, this must be most welcome. HNWIs in Indonesia face a real lack of innovation, with the country last year scoring the lowest of all Asian markets at 33.07. Taiwan aside, all other nations scored over 50 points[32].

Indonesia's digitalisation levels are also low generally, with the country ranked 46th out of 50 in last year's ranking. In fact, the country has made lacklustre progress on this front, advancing only three points since 2008[33].

THAILAND

Thailand is a standout Emerging Asia market notable for its very strong HNWI growth - both in terms of population and asset holdings - even by Asia-Pacific standards: Thailand's HNWI population has increased by 13% over the past five years – ahead of Asia's overall 10%[34]. Only China and Indonesia are thought to be seeing greater HNWI growth.

Thailand is currently home to just over 80,000 HNWIs[35], around 0.85% of the total population, with average wealth each of US$3.34 million[36].

While average wealth has been seen to grow very strongly year-on-year, it is widely said that Thailand's wealthy have yet to really embrace more sophisticated investment offerings and are still largely reliant on basic financial products; bank deposits are more popular than investing in products like mutual funds. This is similar to Indonesia and Malaysia, where most HNWIs prefer to hold cash and cash equivalents or fixed income products[37].

Much of this may be attributed to the immaturity of wealth management services in Thailand: alongside the Philippines, the country came at the bottom of last year's rankings in this area, scoring just five points. However, it should also be noted that over 70% of Thai HNWIs are wealthy through entrepreneurship, and correspondingly their main focus tends to be on managing and expanding their businesses[38].

Thailand has also made regulatory moves set to greatly advance its domestic wealth management sector and accelerate the flow of funds back into the country. Thailand's decision to sign-up to the

Automatic Exchange of Information at the start of the year is said to herald a new dawn for wealth managers, removing much of the incentive to keep assets offshore.

"Hong Kong and Singapore continue to dominate, but we see great potential in Thailand in the Southeast Asian theatre, and also in Taiwan," said Stefano Veri.

"The market continues to evolve and we are meeting more and more people with the right experience who want to launch EAM businesses in Thailand, along with the Philippines and Indonesia," added Aniruddha Ganguly.

Domestic banking institutions are certainly focusing more and more on servicing Thailand's growing H/UHNWI population, our experts noted.

> "HONG KONG AND SINGAPORE CONTINUE TO DOMINATE, BUT WE SEE GREAT POTENTIAL IN THAILAND IN THE SOUTHEAST ASIAN THEATRE, AND ALSO IN TAIWAN."

One key strategy emerging is the formation of strategic partnerships with Western wealth managers/private banks to quickly get domestic staff up to speed in practice areas such as family office management and business succession.

IN FOCUS:
THAILAND'S MOVES TO BOOST BOTH ON- AND OFFSHORE INVESTING

> "FOR THAILAND, ONSHORE WEALTH MANAGEMENT IS BECOMING MORE LUCRATIVE, WITH WEALTHY CLIENTS LOOKING TO DO MORE ONSHORE – BOTH FROM AN INVESTMENT PERSPECTIVE, AS WELL AS IN TERMS OF THEIR WEALTH STRUCTURING."

Few would doubt the continued importance of IFCs such as Hong Kong and Singapore for Asia-Pacific's wealthy. However, several drivers are set to make surrounding countries thrive as wealth management centres in their own right.

Onshore wealth management is becoming an increasingly attractive proposition in several markets due to the globalisation of regulation (particularly around tax as per the CRS), with widespread repatriation of assets the natural consequence. But foreign banks are also being encouraged to open their doors to encourage outside investment into newer hubs.

Here, Thailand is a case in point, according to Dominic Volek, Managing Partner of Henley & Partners Singapore and Head of Southeast Asia.

"The increased need for transparency and fully-compliant structures now has Thai H/UHNWIs rethinking their need for an offshore account and, without an apparent reason, they may be inclined to repatriate their wealth," he said. "For Thailand, onshore wealth management is becoming more lucrative, with wealthy clients looking to do more onshore – both from an investment perspective as well as in terms of their wealth structuring."

Flows back into Thailand will not be unfettered, however. While it is now more straightforward for the wealthy to structure their assets onshore, Volek points to two key challenges they face: first, is the cumbersome requirement that every transaction, in or out of the country, is reported to the Bank of Thailand; second, is that the amount of tax levied on offshore investments is unclear.

The allure of offshore investing for political and investment diversification purposes will also remain largely undiminished, leading to accommodative moves by the authorities. The Thai regulators are also working to facilitate offshore investing for HNWIs, giving them the diversification they need, but also encouraging foreign, more sophisticated banks to consider expansion there.

"There is a broader push to bring product and service offerings in the country closer to global standards, and the BOT and Securities and Exchange Commission have been gradually easing some of the previously-tight regulations to allow investors in Thailand to directly invest offshore in certain asset classes," Volek continued. "This progressive approach has not only created a good opportunity for local investors to diversify their investments, but it has also given some foreign banks greater incentive to develop their onshore offerings in Thailand."

All this means that Thailand is developing into an attractive wealth management market for all manner of players, including EAMs, with its allure amplified by the current dearth of sufficiently-sophisticated providers.

"Both local and foreign banks are now vying for a greater share of the fast-growing and increasingly liberalised market for wealthy Thais, but overall the country's wealth management industry clearly needs to develop the competency and capacity to handle the impending wave of business coming its way," Volek concluded. "HNWIs want a co-ordinated and streamlined service offering, and they want to be advised by wealth managers who can understand the overall needs of both their family *and* business."

THE PHILIPPINES

As last year's report noted, the Philippines has lagged most of its regional peers in terms of wealth growth: its HNWI population has been growing at a rate of 2.6% year-on-year, and the average level of wealth by only 4.3%. Just 0.6% of the population have over $1 million in investable assets and the average wealth per HNWI is a relatively modest $3.23 million.

As with many of the more nascent Asia-Pacific markets, investors in the Philippines have tended to look offshore historically due to the strict regulation of investment products. The authorities have taken steps that make the Philippines more attractive for onshore wealth management in recent years, however. The concept of a "sophisticated investor" is now well-established and in 2015 the minimum annual gross income required to qualify was slashed by more than half to stand at around US$200,000.

That said, it remains a challenging market. Wealth managers operating in the Philippines are said to bemoan the fact that they are overseen by multiple regulators, creating overlaps and uncertainty. (Wealth managers might have to answer to the Central Bank, Securities and Exchange Commission and Insurance Commission simultaneously.)

Independent advisors looking to launch in the Philippines may also encounter particularly pronounced challenges due to unfamiliarity with the model.

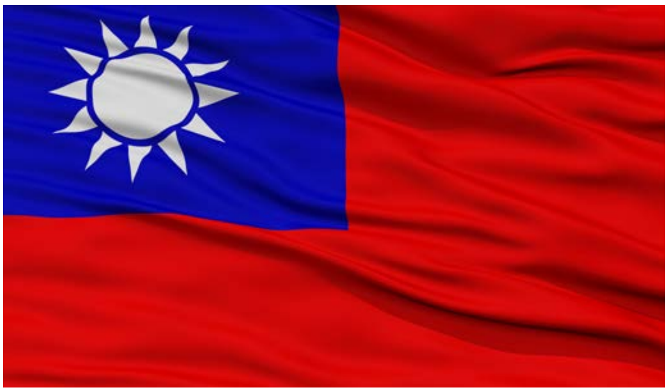
As one EAM in the process of setting up in the Philippines said:

"The model is quite new to the market and I don't feel that there is a concrete road map in place yet for acquiring all the licences required to service clients fully. A lot seems to depend on the interpretation of the officer in charge and we've seen the regulator change their minds on certain wordings on our primary purpose, for example.

"As a result, it took us two years to get our brokerage licence. We still need a mutual fund distribution licence and probably an investment management licence too, but again this depends on what the regulator feels is necessary."

The Philippines has an unusual regulatory set-up which requires public hearings for rule changes, meaning that reforms tend to be major. Amendments to its regime to accommodate EAMs are therefore likely to prove slow in coming.

TAIWAN



RECENT YEARS HAVE SEEN THE TAIWANESE AUTHORITIES MOVE TO MAKE ITS MARKET MORE ROBUSTLY REGULATED AND BETTER DIFFERENTIATE BETWEEN PROFESSIONAL AND RETAIL INVESTORS, TOO.

Taiwan's HNWI population grew by 1.8% over 2015 to reach 127,000, 1.27% of the whole[39]. Both its HNWI population and their wealth are growing at levels of 12-13%, although average wealth is comparatively modest at US$2.4 million per HNWI[40].

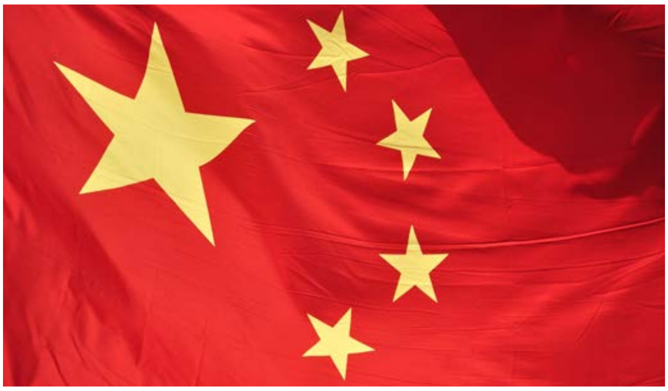
As last year's report showed, Taiwan's wealth management market is on par with Malaysia's in terms of its overall development, but is significantly stronger on digital maturity - ranking joint-second with Hong Kong (behind Singapore)[41].

Recent years have seen the Taiwanese authorities move to make its market more robustly regulated and better differentiate between professional and retail investors, too.

In other developments, last year, Taiwan was prompted to tighten its Anti-Money Laundering legislation following a series of scandals hitting its regulator.

Taiwan's Financial Supervisory Commission came under particular fire from the US for lacking the legal powers to freeze terrorist assets. (Taiwan does not currently enforce US or international sanctions and penalties).

CHINA



China recorded the Asia-Pacific region's most impressive stock market performance by far in 2015 (a gain of 36.4% in market capitalisation) and above-average real estate growth, helping it to boost its HNWI population by 16.2% and their wealth by 16.9%, despite an economic slowdown[42].

China now has over a million HNWIs and average wealth stands at just over US$5 million for each. Yet distribution remains highly concentrated, with just 0.69% of the Chinese population having over US$1 million in investable assets [43].

China's ultra-wealthy also marked up impressive growth over 2015. Total UHNWI wealth rose by US$175 billion, contributing 70% of the total global rise of US$250 billion over the period and substantially outpacing growth rates across Asia-Pacific as a whole [44]. China also has the largest population of billionaires, being home to 204 of the 2,024 globally in 2016[45].

Equity rises may have particularly boosted China's UHNWI population given that on average they hold just 8.8% of their wealth as cash - the lowest percentage of any focus country in this report. A solid 7% rise in GDP benefited many of the 27% of ultra-wealthy individuals involved in manufacturing[46].

China's HNWIs are among the most growth focused of all the Asia-Pacific markets[47]. As might be expected, Chinese investors are also particularly globally-minded, standing third in the rankings globally for likelihood of holding investments outside their home country (74.6% of Chinese wealthy individuals hold non-domestic assets, against 87.3% in Indonesia)[48].

Offshore investment solutions represent the safety of assets and diversification today's increasingly sophisticated Chinese investors seek.

The fortunes of the Chinese economy and wealth management market are clearly inextricably linked to those of Hong Kong - and this of course is a major factor in the latter's battle with Singapore for Asia-Pacific supremacy. For example, China's HNWI growth stoked a 47% increase in the amount of money flowing into Hong Kong between 2012 and 2014, compared to a 32% rise for Singapore [49].

However, regulatory developments have made China itself a far more open, attractive market for financial services institutions both domestic and foreign.

Earlier this year, it was reported that the stranglehold of domestic banks was to be loosened by a relaxation of the licensing rules for foreign-owned banks, allowing them to underwrite treasury bonds and offer custodial and advisory services without having to report to the China Banking Regulatory Commission first.

CBRC has also been paying a lot of attention to the private banking sector. Having first allowed the opening of five pilot private banks in 2004, the authorities have since approved 12 more launches and been encouraging of investment into new institutions.

Oversight is intended to be very robust, however. CBRC has been highly active in working to enhance the competitiveness and "risk resistance capability" of private banks, issuing in January its "Guiding Opinions" on their supervision. These strive to establish a unified, coordinated, safe and effective regulatory system, and to clarify private bankers' powers and responsibilities. They attach equal importance to prudential regulation and innovative development, adhere to Chinese principles of whole-course supervision, innovative supervision and coordinated supervision, and mix unified regulation with differentiated regulation.

China has also recently acted to open up its fund market and encourage foreign private fund managers to set up in the country (either as wholly-owned foreign enterprises or joint ventures).

Measures to open up China and help its financial hubs' ascent on the world stage are clearly paying dividends. As Mark Yeandle noted: "Shanghai and Beijing both showed healthy rises in the GFCI 21 ratings, with Beijing now in sixteenth place globally."

Market opinion also seems to point towards Chinese centres growing ever more prominent going forward. Participants in the GFCI are asked which financial centres they think will become more significant and this year Chinese centres dominated the top six: Shanghai and Singapore headed the list, with Hong Kong, Qingdao and Shenzhen also riding high (Dubai was the only non-Asian entry).

There are, however, several challenges for Chinese centres to overcome, Mark Yeandle explained. "The main problems that seem to be holding Chinese centres back are the slow progress towards full opening up of the markets, the full convertibility of the renminbi and the perception that the Beijing government wants to exert too much control over the markets," he said.

"THE MAIN PROBLEMS THAT SEEM TO BE HOLDING CHINESE CENTRES BACK ARE THE SLOW PROGRESS TOWARDS FULL OPENING UP OF THE MARKETS, THE FULL CONVERTIBILITY OF THE RENMINBI AND THE PERCEPTION THAT THE BEIJING GOVERNMENT WANTS TO EXERT TOO MUCH CONTROL OVER THE MARKETS."

MALAYSIA

AS LAST YEAR'S REPORT HIGHLIGHTED, THE NUMBER OF HNWIS IN MALAYSIA RELATIVE TO ITS POPULATION IS COMPARATIVELY SMALL: AMOUNTING TO LESS THAN 1%.

As with Singapore, falls in market capitalisation led Malaysia to post negative HNWI population growth of 3.6% over 2015[50]. Furthermore, as last year's report highlighted, the number of HNWIs in Malaysia relative to its population is comparatively small: amounting to less than 1%. (Malaysia's economic growth is said to be far more evenly distributed than elsewhere[51]).

In last year's ranking of wealth management maturity levels, Malaysia tied with Taiwan at 8 points, while its overall score of 5.72 put Malaysia comfortably ahead of the Philippines, Thailand and Indonesia.

On most measures, Malaysia is a strong second-level competitor behind Hong Kong and Singapore[52].

Last year, Malaysia was noted for having the third-highest demand for wealth management services of all the markets. The country also performed particularly well in terms of innovation, scoring 62.1, placing it behind only Singapore and Hong Kong[53].

In terms of international focus, Malaysia's HNWIs are fifth among the Asia-Pacific markets, with 67.4% holding investments outside of their home country (ahead of both Hong Kong and Singapore)[54].

Interestingly, Malaysia also leads in terms of HNWIs' willingness to consolidate more of their assets with fewer wealth managers. In Malaysia, 53.2% of clients would be willing to do so, against 48.4% in Singapore and 33.1% in Hong Kong[55].

As with Indonesia, credit is an important part of Malaysian clients' investment portfolios. Almost a third (30.8%) of HNWI assets in Malaysia are financed through credit, compared to only 18.2% in the rest of the world[56].

JAPAN

Japan and China continue to be the engine rooms of global HNWI growth, with the two countries driving 60% of the increase seen in 2015.

Together, they added more than twice as much HNWI wealth (US$1.4 trillion) as all the other regions outside Asia-Pacific combined and they increased their number of HNWIs by 1.5 times the rest of the world[57].

Together with Germany, China and the US, Japanese wealthy now make up 61.2% of the global HNWI population.

Japan currently boasts 2,720,000 HNWIs, recording a 10.9% annual spike in numbers and an 11.4% rise in HNWI wealth over 2015[58].

Although the Japanese economy continues to stagnate, wealth was boosted by strong gains in the equity and real estate markets.

As last year's report highlighted, in terms of wealth management maturity, Japan stands alongside Singapore and Hong Kong (lagging slightly on digital provision).

It also boasts somewhat higher average HNWI wealth than Singapore, at around US$5 million[59].

However, the unique trajectory of Japan's economy has fostered a highly cautious investment mind-set that seems to be difficult for wealth managers to conquer.

Japanese HNWIs stand out among Asia-Pacific clients for being the most likely to put their wealth on deposit at a bank (27%) or to hold physical cash (17.8%).

They are also least likely to use a professional to run their money: in Asia-Pacific investors place 30.6% of their assets with wealth managers, against a global rate of 34.5%, but in Japan this figure is lower still, at 23.7%[60].

SECTION THREE
THE EAM VALUE PROPOSITION: EVOLVING BUSINESS AND FEE MODELS

THE RELATIONSHIP PIECE

Unsurprisingly, offering clients a long-lasting, trusted relationship was cited as the most important part of the EAM proposition by a majority of 47% of respondents (the 6% of respondents indicating "Other" also tended to specify something in a similar spirit, such as "total alignment of interest with the client").

The strength of this sentiment around stability and trust is of course as to be expected, and in fact seems to have grown quite significantly since last year when this part of the value proposition ranked second behind expertise of investment advice (these were cited by 26% and 35% respectively).

Wealth managers without exception are likely to hold out long-lasting, trusted relationships as the bedrock of their value proposition. However, as the panel argued, the "externality" of EAMs makes them almost uniquely placed to really deliver on this.

As Jessica Cutrera put it: "I think the real attraction is the independence. And also EAMs can draw on the resources of multiple banks. They can be agnostic as regards to product, platform and service, and can access a far wider range of solutions for their clients."

The relationship piece is also clearly about closeness to the client, and, for Anthonia Hui, accelerating acceptance of discretionary portfolio management to Western levels hinges on the frequent communication that EAMs are best placed to give.

"Clients are happy to give you a discretionary mandate as long as they always know what you are doing, rather than them hearing nothing and actions being presented to them as a resultant event. If the result isn't necessarily satisfactory, the client can be left with a very bad taste in their mouth, which is how discretionary mandates can backfire on the industry," she said.

"Because we are closer to our clients and exercise close communication as the norm, EAMs can often be more successful in getting and *sustaining* discretionary mandates."

FIGURE 7
Most important proposition offered to end-client

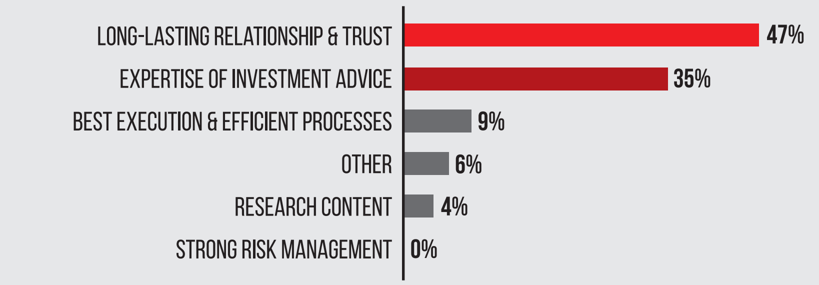
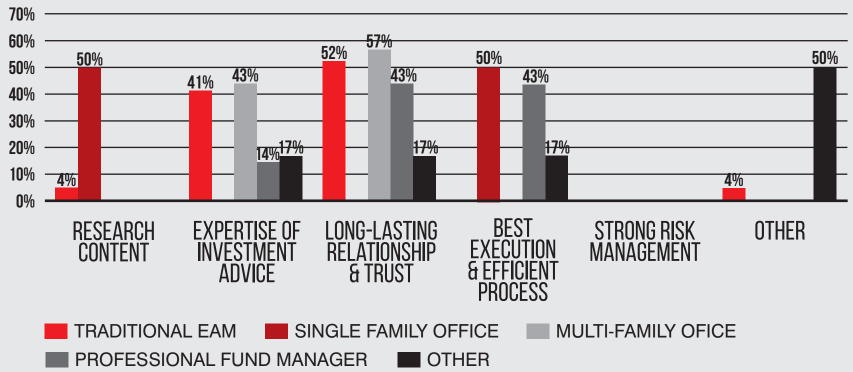


FIGURE 8
Business model vs most imprtant proposition to end-client



BEST EXECUTION AND EFFICIENCY

As it might be expected given that they tend to sell themselves on performance, great emphasis was placed on best execution and efficient processes by professional fund managers, almost half of whom gave this element of their proposition top ranking (see Figure 8). However, the fact that 9% of respondents overall placed this first underscores just how important up-to-date technology and efficient systems are across EAM business models.

As one "Big Four" consultant to the sector based in Singapore explained:

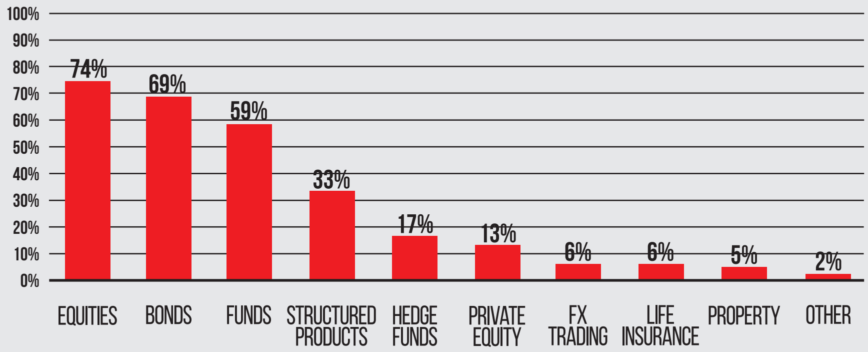
"Alongside the personal relationship piece, and investment choice and expertise, speed of execution - both in getting onboarded or trading - is really important for clients today.

"With markets so volatile, people want to react quicker and execute faster, so there might be significant appeal in a smaller EAM that can focus on more personalised, rapid-response service, simply because it has fewer clients."

This seems to be borne out by our finding that half the organisations categorising themselves as single family offices said the most important part of their proposition are the best execution and efficient processes (the other half cited investment research).

Clearly, trusted, lasting relationships are seen as a given in an SFO set-up.

FIGURE 9
Top products used by EAMs' clients



INVESTMENT EXPERTISE (AND A BROAD PALETTE) STILL A TOP USP

Expertise of investment advice may have slipped to second place in importance this year, but still scored very strongly with 35% of the votes again. Very often, broad *and* deep investment expertise (and an alternative to the more "vanilla" offerings prevalent elsewhere) is the primary draw to an independent advisor, our experts said. And, as Figure 9 shows, Asia's EAMs are offering a very broad investment palette indeed, with all manner of alternatives proving popular among clients. This is very much in step with broad regional trends in asset allocation.

When asked to identify the top products used by their clients, Asian EAMs ranked equities convincingly at number one with 74% of the votes, followed by bonds (69%) and funds (59%). This chimes with the asset allocation figures from the *2016 RBC/Capgemini World Wealth Report*, which found that HNWIs in Asia-Pacific (ex-Japan) had increased their equities allocations to 23.3% from 22.8% in the previous year.

Notably, equities were favoured even more strongly by investors in Singapore, accounting for 26.8% of their portfolios.

RISING ALTERNATIVES ALLOCATIONS GLOBALLY, AND PARTICULARLY IN ASIA-PACIFIC

Yet investors across markets have been increasingly looking outside of traditional asset classes for some years now and alternatives allocations have been consistently higher in Asia-Pacific. In 2015, HNWIs in Asia-Pacific allocated 16.6% of their portfolios to alternatives, against a global average of 15.7% (rising from 14.0% and 13.0% respectively the year before)[61].

Meanwhile, 2017 *WealthBriefing* research assessing portfolio management efficiencies has confirmed that all manner of alternatives are popular across the whole spectrum of wealth management businesses in Singapore[62].

In this study, hedge funds were cited as a top-five asset class by almost a quarter of respondents and private equity funds by close to a fifth overall. Meanwhile, real estate, direct private equity investments (as opposed to funds) and precious metals were all cited in the top five of 15% of respondents in each case.

Likewise, our 2017 EAM survey confirms a strong (and broad) interest in alternatives among Asian EAMs' clients.

> "ASIAN CLIENTS OFTEN LIKE TO TRY TO PROFIT FROM THE MARKET VOLATILITY WITH STRUCTURED PRODUCTS, ESPECIALLY THE ONES THAT HAVE A COUPON ATTACHED TO THE PRODUCTS THEMSELVES AS THEY NEED YIELD IN A VERY LOW-YIELDING ENVIRONMENT."

Structured products figured highly at 33%, for example, and were mentioned by several contributors as a popular choice given today's investment environment. As Stefano Veri observed: "Asian clients often like to try to profit from the market volatility with structured products, especially the ones that have a coupon attached to the products themselves as they need yield in a very low-yielding environment."

HEDGE FUNDS AND PRIVATE EQUITY

Hedge funds also form a relatively significant part of the EAM asset mix at 17%, with private equity following at 13% (the two combined garnered 41% of the votes last year). Industry data suggests hedge funds may find further favour going forward, albeit on a highly-selective basis.

Following a tough year, interest in hedge funds seems to be strongly returning in 2017. HNWIs globally allocated $15.7 billion in new money to hedge funds in March, bringing total industry AuM to $3.107 trillion and marking the industry's largest positive numbers in 20 months.

However, it is noteworthy that Asia-focused funds and funds domiciled in Asia were among the biggest losers. The former saw assets fall by US$1.75 billion in March (down from US$2.67 billion for Q1), while the latter experienced a decline of US$0.81 billion, almost wiping out positive AuM growth for the quarter.

Meanwhile, investors seeking to benefit from market turbulence have been piling into strategies focusing on thematic approaches to major public and derivative markets. Strong inflows into macro ($11.46 billion) and managed futures funds ($6.47 billion) were posted in the first quarter of this year.

All this means investors will be looking very closely at performance as they weigh up strategies and vehicles – particularly given that data is pointing to the beginning of a trend towards consolidation of assets among a smaller number of hedge fund offerings[63].

On the subject of direct equity, Stefano Veri confirmed that there is a significant subsector of EAMs offering direct private equity "on top" of traditional wealth management activities as a Unique Selling Point.

Offering diverse entry points into private equity seems to be a real priority for EAMs. Having an advisor who is able to source companies at various stages of development is something more adventurous clients really prize, it was said.

"We really focus on offering multiple opportunities for our clients to invest directly into individual companies, be it in start-ups or more established firms that are raising capital," said Johan Riddergard. "Clients want someone with that 'ear to the ground'."

"For our clients, the top-two value propositions are independence and investment specialism – and for us that means sourcing interesting, differentiated and exclusive deals," added Kenneth Ho.

THE EAM REVENUE MIX CONTINUES TO EVOLVE

The make-up of EAMs' revenue streams now and going forward is naturally of fundamental importance when assessing the sector's growth prospects; it is also a key gauge of how the wealth management industry is evolving generally amid changes in regulation and client demand.

As in last year's survey, respondents were asked to identify the two most important elements of their revenue mix; and again fees for asset management/advisor services and revenue share of brokerage and commissions came top.

Similar to 2016, asset management/advisor fees were significantly in the lead, receiving 86% of the votes. While revenue share of brokerage and commissions was higher at 60% versus 46%, this can probably be attributed to sampling differences, as this study included a new (9%) cohort of EAMs based outside of Singapore and Hong Kong. As Figure 11 confirms, EAMs in markets surrounding the main hubs show significantly higher reliance on revenue sharing.

Similarly, while reliance on trail commissions from the distribution of funds only fell from 14% to 13% year-over-year, the inclusion of firms from less mature (and therefore less fee-orientated) centres is very important to note.

Respectively, just 6% and 4% of Singapore and Hong Kong-based firms identified trail commissions as a top revenue stream, versus 13% in other markets. It appears this part of the revenue mix has in fact more than halved in importance in the two main Asian hubs.

It is also clear that smaller firms (those with up to US$50 million in assets under management) tend to be more reliant on trail commissions, these being a key part of the revenue mix for close to three in ten respondents in this segment (see Figure 12).

As is discussed more fully later in this section, reported plans by both the Hong Kong and Singapore regulators to force the full disclosure of commissions and trail fees are expected to have the greatest impact on smaller wealth managers due to them tending to rely more on these revenue streams.

FIGURE 10

The two most important elements of EAMs' revenue mix

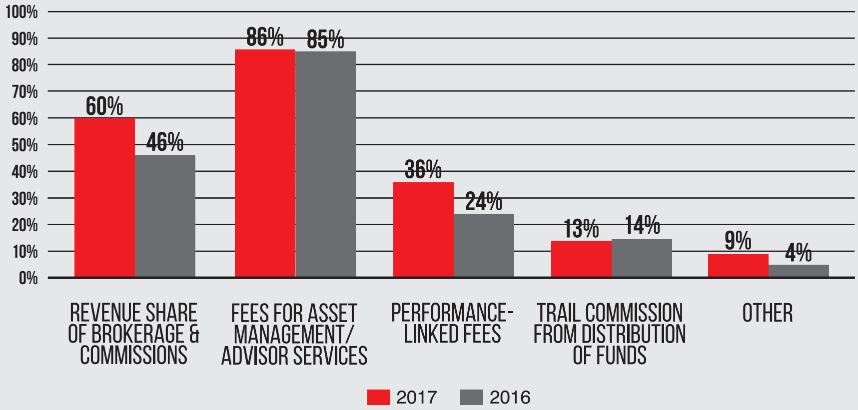


FIGURE 11

The most important part of the EAM revenue mix vs location

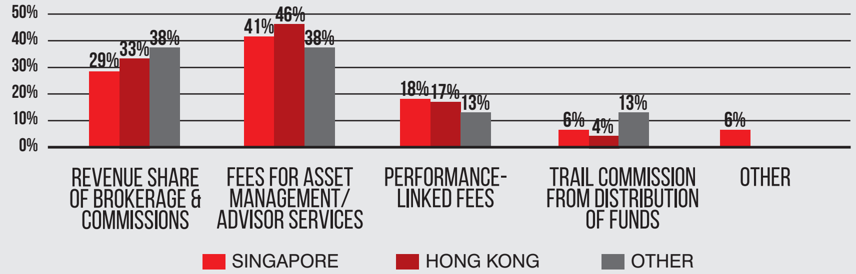
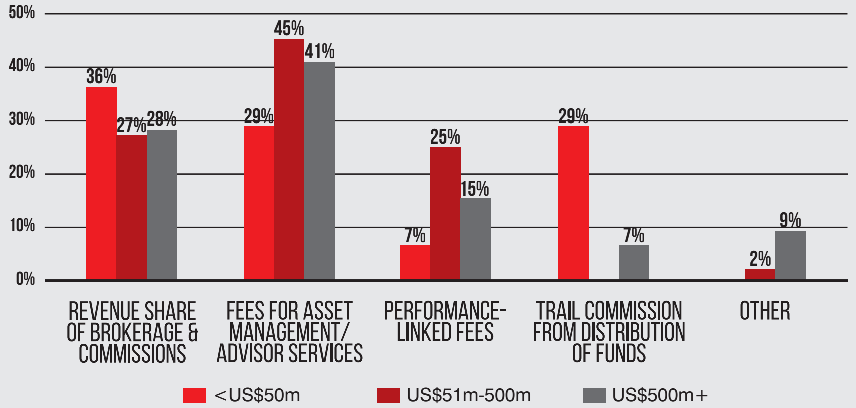


FIGURE 12

The most important part of revenue mix vs AuM of firm



"WE REALLY FOCUS ON OFFERING MULTIPLE OPPORTUNITIES FOR OUR CLIENTS TO INVEST DIRECTLY INTO INDIVIDUAL COMPANIES, BE IT IN START-UPS OR MORE ESTABLISHED FIRMS THAT ARE RAISING CAPITAL. CLIENTS WANT SOMEONE WITH THAT 'EAR TO THE GROUND."

FIGURE 13
Average annual management fee

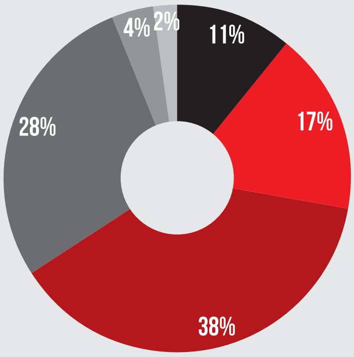


FIGURE 14
Does your management fee typically include a performance fee?

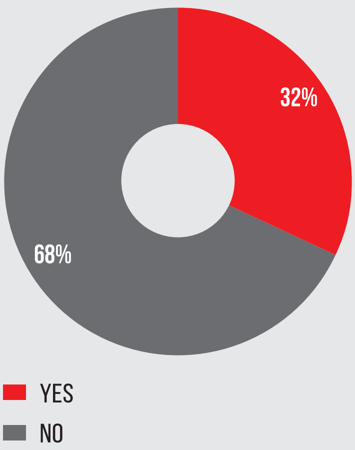
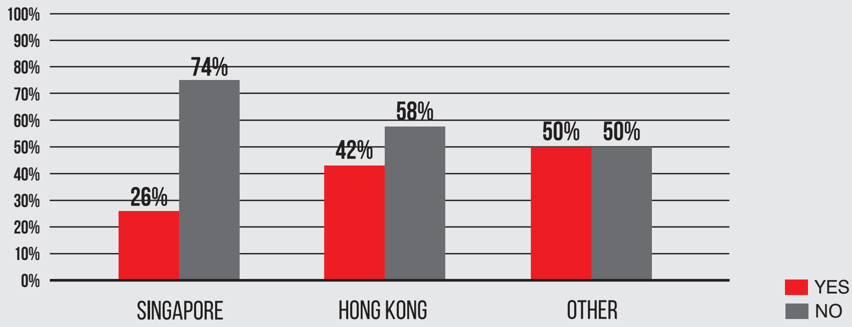


FIGURE 15
Performance fee being included as part of management fee vs EAM location



ANNUAL MANAGEMENT FEES

As Figure 13 shows, a substantial majority of 38% of respondents charge an annual management fee of 51-75 bps, with the next most populous segment being those levying 101-125 bps at 28% and very few charging above this level.

At the lower end of the spectrum, 17% of EAMs charge an annual management fee of 26-50 bps and 11% one of 25 bps or even less (presumably heavily compensated for by other elements of the possible revenue mix).

PERFORMANCE FEES RISE IN IMPORTANCE

The participants in last year's study indicated that performance-linked fees would double in importance in the revenue mix in the next 2-3 years – and this already seems to be well on the way to becoming a reality.

In 2017, performance fees received 36% of the votes on the two most important revenue streams, up from a quarter in 2016 (see Figure 10). As they move to differentiate their offering, EAMs are clearly putting more "skin in the game".

This year's participants were asked if their management fee usually includes a performance fee for the first time, revealing that this is the case for almost a third of EAMs. This is in line with 36% of firms saying that performance-linked fees are a major part of their revenue mix (and 28% of firms charging a management fee of 50 bps or less).

It is also of note that medium-sized firms (those with US$51 million - 500 million in AuM) were most likely to report performance-linked fees as being an important part of their revenue mix, with one quarter of respondents indicating this (see Figure 12).

Regional analysis again revealed striking differences on this point.

As Figure 15 illustrates, the inclusion of a performance-linked element of remuneration within management fees seems to be closely related to the location of the EAM.

As our expert contributors pointed out, on this front much depends on how mature the wealth management market is generally, how well-established the EAM model is and how internationally-orientated it can be said to be: whether clients tend to be focused more on growth or capital preservation is likely to be a significant driver, along with how well-acquainted investors are with the EAM model (and how convinced they are of its merits).

In locations like the Philippines and Thailand, where the EAM model is only just starting to gain traction, we see that 50% of firms usually include performance fees within their management charge, with Hong Kong not far behind at 42%. In Singapore, this is almost half as likely as in emerging EAM markets.

As discussed earlier in this section, a large proportion of EAMs feel that investment expertise is one of their key differentiators, yet at the same time (overall) two-thirds of respondents do not typically include performance in their management fee.

But while this may seem like something of a contradiction, the positioning and structure of EAMs are big factors, our expert commentators explained, as is the sector's ongoing evolution.

"It's hard to anchor a model purely on performance and this is a challenge that's not unknown even on the institutional side - even hedge funds and private equity structures are having to rethink the classic 'two and twenty' model," said Aniruddha Ganguly. "But as fund structures become more prevalent you might see more of that coming back in as those selling themselves as portfolio managers obviously position far more strongly along the performance axis."

However, in his view, any growth in EAMs going down the fund route will take time and for the foreseeable future fees that are ad valorem (or otherwise not linked to performance) will remain prevalent. As Figure 16 shows, at present only 12% of participants classify themselves as professional fund managers.

"Clients have not been used to seeing the EAM segment like that: they are happy to do it with hedge funds, but not with traditional mutual funds," Ganguly added. "That buying habit will have to evolve over time."

Veri also sees reliance on performance-linked fees as a rare thing among EAMs at present, observing that not only are these quite challenging to calculate, but also difficult for investors to understand meaningfully.

"Most EAM clients do not have an established benchmark and would tend to look more at absolute rather than relative returns," he said. "Unlike institutional investors, these clients tend to be interacting with the EAM in a more emotional way, seeking capital protection and then growth on top when the markets are going up."

FULL COST DISCLOSURE COMING?

In mid-April 2017, reports emerged that both the Singapore and Hong Kong regulators are poised to roll out new rules forcing wealth managers to fully disclose what they are paid by providers for the products they recommend.

Commissions have not been subject to disclosure hitherto, but can make up a significant proportion of revenues, with some wealth managers said to earn 0.5% to as much as 6.0% of the management fees charged by investment firms, alongside annual trail fees.

In this regard, the regulators of the two Asia powerhouses would be acting very much in line with the many authorities all over the world which have moved to eradicate potential conflicts of interest (the defaults of some illiquid, high-yielding bonds in Singapore last year raised particular concerns about "product push").

The UK's Retail Distribution Review series of reforms, which became law in 2013, stamped out use of commission payments and encouraged a switch to fee-based advice, an approach that has seen some financial firms go out of business, merge, sell up or restructure. The US, meanwhile, has been working on a fiduciary rule to curb conflicts of interest in investment management.

A drop in fees from commission-bearing deals is the expected outcome in Hong Kong and Singapore, along with a possible increase in clients opting to go directly to fund managers as they look more closely at the products they buy.

Importantly, it is thought that these changes would have a particularly marked impact on smaller wealth managers like EAMs, as often a large chunk of their revenues come from selling third-party products to clients.

As Steve Knabl observes, however, the sector has no choice but to move with the times on full disclosure. "More transparency is coming and within five years it will be the same as you find in Europe," he said. "But although this is being driven in part by regulation, it's also the advisors realising that they are better off having a base recurring revenue rather than a volatile revenue based on generating trades for clients."

As the panellists pointed out more broadly, the move towards fee-based advice depends on a whole host of factors, such as education, the maturity of the market generally and the length of each particular EAM's relationship with their client(s).

Therefore, Steve Knabl observed that the transition to a fee-based model is often a gradual one, which may go some way to explaining the low (sub-50 bps) annual management fee 28% of our participants reported.

"Traditionally, Asian clients have been thought of as wanting to make a lot, trade a lot and take risks, with you calling them every day without them having to pay for the service.

"However, we are now seeing a growing trend of clients paying for advice, but it's still very much an educative process of EAMs saying to clients, 'I will act as an independent advisor to you, but I need you to pay me on a retainer basis for the advice and service I'm giving you'.

"This means it usually starts small, with 25 basis points on year one, then up to 50 basis points on year two, before they then start talking about a performance fee – although that part is harder to implement."

Generally, although a pronounced shift away from rebates is occurring, Asian EAMs exhibit a *hugely* divergent mixture of revenue models at present. Going forward, our experts predict a reduction of commissions on transactions to allow for performance fees to come in, alongside fees for advice.

As models evolve towards fees for advice being ubiquitous, and probably to include some element of performance indexing too, Nitin Birla made the important point that *transparency* will be the most important part of the puzzle.

"ATTITUDES TOWARDS ADVISORY FEES ARE SLOWLY CHANGING AND CLIENTS ARE MORE WILLING TO NEGOTIATE THAN IN PAST, WHEN THEY DID NOT WANT TO PAY AT ALL."

"Attitudes towards advisory fees are slowly changing and clients are more willing to negotiate than in the past, when they did not want to pay *at all*," he said. "Going forward, performance-linked fees will be the way to go – both due to client demand as well as regulators' desires – and for this to happen, transparent performance measurements and comparisons become key."

As will be discussed in Section 4, technology enhancements on both the EAM and custodian side are the bedrock of delivering the transparency both investors and regulators want to see.

EVOLVING EAM BUSINESS MODELS

Firms considering themselves "traditional EAMs" make up the bulk of our sample, comprising almost half of respondents. Combined, single and multi-family offices made up almost three in ten firms, while professional fund managers also figured highly in the mix with over a tenth classing themselves as such.

"Other" typically denoted hybrid business models, such as a combination of an EAM and a professional fund manager, or of an EAM and a multi-family office, underscoring just how broad a range of organisations may come under the independent advisory banner.

FIGURE 16
Business model of survey participants

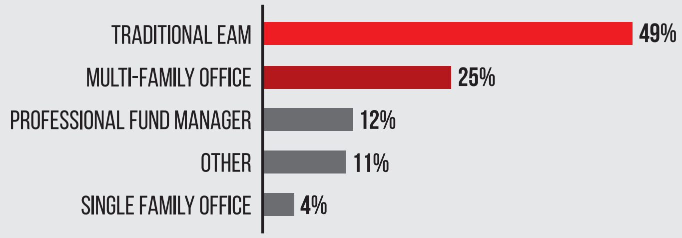


FIGURE 17
Location vs business model

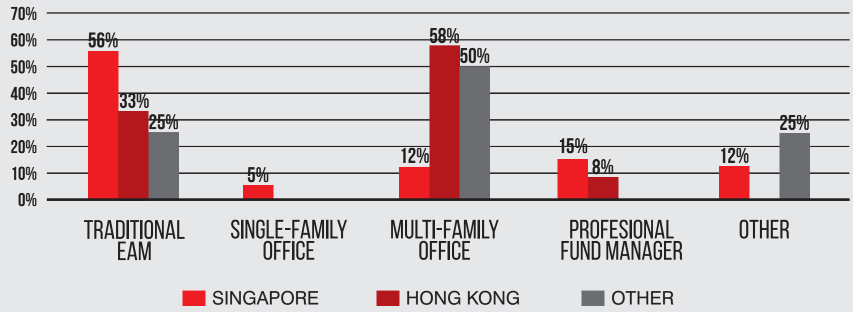
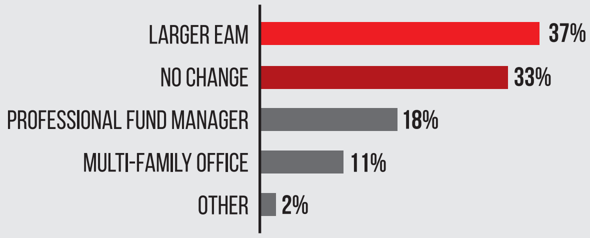


FIGURE 18
Expected business model evolution in the coming 2-3 years



"UHNWS IN CHINA HAVE A NEW FOCUS ON THE INVESTMENT SIDE DUE TO UNFAVOURABLE GOVERNMENT POLICIES, A SLOWDOWN IN THE ECONOMY AND A DEPRECIATING CURRENCY: NOW THEY REALLY WANT TO PRESERVE AND PROTECT THEIR WEALTH."

As elsewhere, regional analysis reveals interesting correlations. As Figure 17 shows, respondents in Hong Kong leaned towards the multi-family office model, whereas those in Singapore were most likely to be traditional EAMs (this being the case for 58% and 56% of respondents respectively).

Interestingly, while Hong Kong participants did not make use of the "other" (hybrid) designation, a tenth of those in Singapore did.

HOW EAMS EXPECT THEIR BUSINESS TO EVOLVE

As we see from Figure 18, a third of respondents do not see their business model changing substantially in the next three to five years. This is perhaps as to be expected as both the EAM model and the firms participating in this study are generally in a fairly early stage of development (see Figure 19).

The majority are feeling more bullish, however, with 37% seeing their business grow into a larger EAM within five years.

Interestingly, it seems that multi-family offices are going to be most prominent in this evolution. Our survey points to them reducing in number from a quarter to just over a tenth by 2022, with the majority transforming into either larger EAMs or professional fund managers.

Just under a fifth of EAMs included in this study have been in business for less than two years, with (predictably) recent launches being far more prevalent in the nascent markets outside Singapore and Hong Kong.

That said, over half of the whole sample have been in operation for six years or more and a fifth (22%) for over a decade.

REGIONAL VARIATION

Again, closer analysis revealed significant regional divergence. Firms based in Hong Kong are most likely to stick with their current business model, with 42% seeing no change in the future; in contrast, almost 39% of Singapore-based firms are looking to grow into larger EAMs in the next three to five years. Half of those based in other jurisdictions will go this way too.

It is striking that (across the sample) professional fund managers are predicted to increase from 12% to 18% over this period.

As discussed, any growth in these more performance-orientated set-ups will be particularly interesting from a fee structuring perspective.

But there are also notable regional differences to report: we can expect the growth of professional fund manager structures to be quite noticeable in Hong Kong, with this sub-sector more than tripling from 8% to 25% of EAMs, while numbers remain flat in Singapore.

As several panellists pointed out, much depends on how clients' investment tastes and needs are evolving when it comes to the types of wealth management business that will thrive the most in each market. Where each EAM positions itself on the matrices of preservation versus growth, and performance versus relationship, is likely to hold differing appeal to various client cohorts.

For instance, Winnie Lee is of the view that China represents particularly bright opportunities for multi-family offices and fund structures as it continues to open up, not only because of the vast creation of wealth in the past 10-15 years, but also the shifting mind set of ultra-wealthy families away from very aggressive growth.

"UHNWIs in China have a new focus on the investment side due to unfavourable government policies, a slowdown in the economy and a depreciating currency: now they really want to preserve and protect their wealth," she said.

FIGURE 19
Number of years participant firms have been in operation

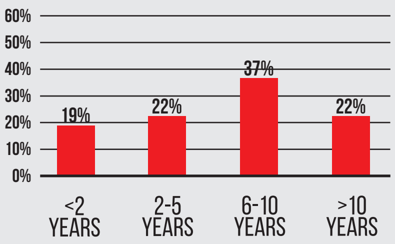
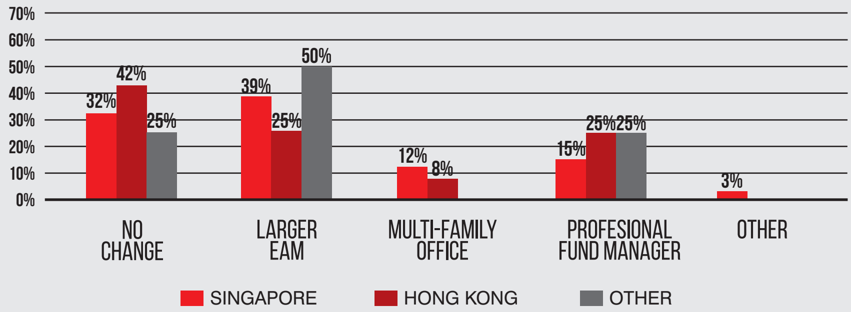


FIGURE 20
Participants' location vs business model evolution



"I think multi-family offices and the private labelled fund segment can really help to address the needs of these ultra-wealthy clients, with MFOs also using the fund structure for their investment strategies."

It is difficult to say which style of EAM has the maximum potential across all of the Asian markets independent advisors may wish to work in, due to the huge variations in regulatory regimes, market maturity and client needs discussed. However, several of the expert contributors agreed with Lee that multi-family office style organisations stand particularly poised for growth.

New launches will not be easy, however. In Asia as elsewhere, setting up and maintaining multi-family office businesses entails challenges that might be more acute than for other wealth management models – two in particular being recruiting ambitious bankers to take up positions within these low-key organisations and the capital requirements to make them viable.

"Logically, multi-family offices should do well as they are able to provide most of the services of an EAM, such as asset management, segregated portfolios and so on," said Nitin Birla. "However, as ever, the big challenges remain of sustaining a suitably qualified team of people and committed capital for running operations for a minimum of three to five years."

"LOGICALLY, MULTI-FAMILY OFFICES SHOULD DO WELL AS THEY ARE ABLE TO PROVIDE MOST OF THE SERVICES OF AN EAM, SUCH AS ASSET MANAGEMENT, SEGREGATED PORTFOLIOS AND SO ON."

SECTION FOUR

EAMS AND CUSTODIANS: EXAMINING A TRULY SYMBIOTIC RELATIONSHIP

FIGURE 21
Number of custodian banks offered to clients: 2017

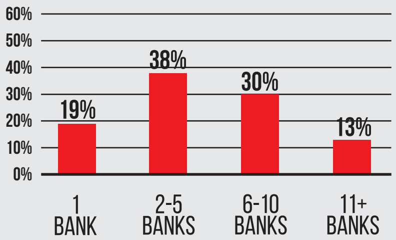


FIGURE 22
Number of custodian banks offered to clients: 2016

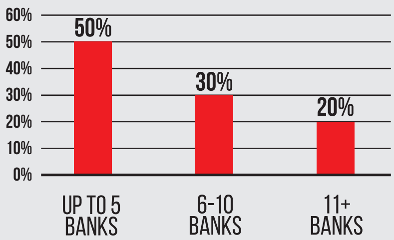


FIGURE 23
% of total AuM booked with main custodian bank: 2017

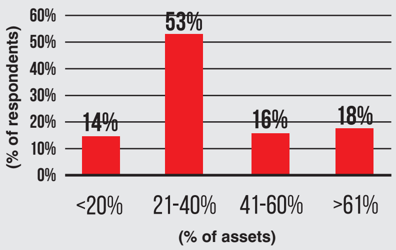
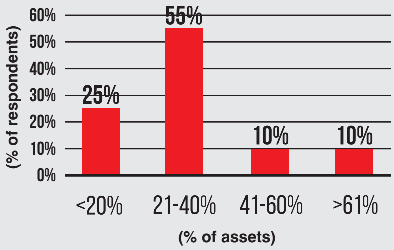


FIGURE 24
% of total AuM booked with main custodian bank: 2016



"THE REALITY IS THAT AS YOU START OFF YOU DO WHATEVER YOU HAVE TO IN ORDER TO WIN THE CLIENT, BUT AS YOU BECOME MORE ESTABLISHED OVER TIME YOU WOULD GRAVITATE TOWARDS THREE TO FIVE CUSTODIANS YOU WORK MOST WITH HABITUALLY."

EAMS TRENDING TOWARDS FEWER, MORE CONCENTRATED CUSTODIAN RELATIONSHIPS

Just as last year, our 2017 snapshot of the sector shows a great deal of variation in the number of custodians EAMs in Asia are working with.

Yet this year's survey seems to point to a pronounced trend towards EAMs using fewer custodians.

In 2016, 50% of respondents said they were only working with up to five banks, while this proportion rose to 57% in 2017; correspondingly, the cohort working with 11 or more fell from 20% to 13% (those using 6-10 remained stable year-over-year at 30%).

Looking at the proportion of total AuM EAMs are booking with their main custodian seems to suggest a move towards fewer, more concentrated relationships in asset terms.

In 2016, a quarter of EAMs reported placing less than 20% of assets with their primary custodian, compared to 14% saying as much this year.

Meanwhile, now 18% of EAMs custodise more than 60% of total client assets with their main institution, rising from a tenth last year. Although, again, a larger sample size could have had an effect here, for our panellists moves to rationalise custodian relationships would make sense.

According to Thomas Koechli, the trend towards booking a higher proportion of assets with a tighter set of custodians is a sensible strategy that the sector is likely to increasingly move towards – for good reasons on both the EAM and bank side of the equation.

As he observes, implementing interfaces with various banks for single clients is impractical for the EAM (and custodians) long term. "The reality is that as you start off you do whatever you have to in order to win the client, but as you become more established over time you would gravitate towards three to five custodians you work most with habitually," Koechli said. "The rest would be client-driven or for a specific reason."

These reasons might be for high-level wealth management purposes, such as a desire for multi-shoring or more esoteric investment choices. But they can also be about pragmatic money management on a "one-stop-shop" basis, it was pointed out. "Some clients have specific needs, such as mortgage financing, and not all the banks offer the same service," said Lucie Hulme.

However, both our first and second studies showed that just over half of EAMs place only a relatively modest 21-40% of assets with their main custodian. Dispersion of assets among a diverse set of banks may be decreasing to a degree, but is clearly still a big part of the picture.

Unpicking the factors behind the number and concentration of EAMs' relationships with custodians revealed a complex mix of drivers.

CLIENT (AND ADVISOR) CHOICE REMAIN PARAMOUNT

Paramount is of course the need to offer clients a sufficient variety of custodians to meet their needs *and* preferences. As last year's report highlighted, choice of custodian is a highly-client centric affair, with HNWIs tending to be part of the decision-making process in over 80% of cases.

The profile and reputation of the banks on offer is clearly an incredibly important driver here, firstly because Asia-Pacific is a notoriously brand-conscious market and secondly because the EAM model is still gaining traction.

Safety of assets naturally remains a key concern for clients and association with a trusted (and perhaps prestigious) banking name is likely to be powerfully reassuring to clients forming their first relationship with an independent advisor. It is therefore unsurprising that the brand and reputation of the bank came third in the rankings of the most important drivers of custodian selection, with 38% of respondents citing this as having the greatest level of importance (see

FIGURE 25

Relationship size for a typical client (US$m)

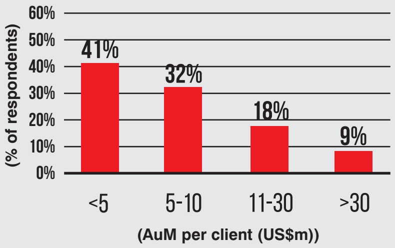
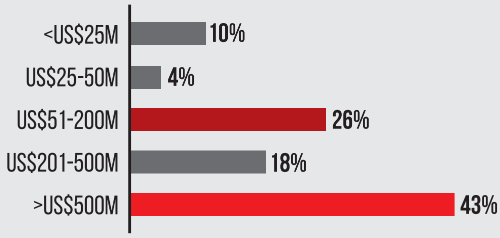


Figure 27).Brand may be important, but more so is the need to precisely meet clients' wealth management needs, the panel said. As we see from Figure 25, over 70% of EAMs say their typical client relationship size is US$10 million or less. Therefore, it is reasonable to assume that HNWIs are unlikely to have all of their money run by a single organisation and will instead tend to be multi-banked across four (or more) different institutions, "cherry-picking" for different elements of their portfolio(s).

As Kenneth Ho put it, the majority of EAM clients are working with independents on a

FIGURE 26

Participating EAMs' total AuM



"core-satellite" basis. "In North Asia, the independent model is very new, and while it's much more prevalent in Southeast Asia, it is still nowhere near as embedded as it is in Europe and the US," he said. "You need to prove to the client that you're really evaluating on their behalf and saving them money and so forth."

Gaining more wallet share is a gradual trust and evidence-building process for both banks and EAMs. As such, when it comes to custodian choices, a balance needs to be struck between what is most efficient and cost-effective, and what gives the clients exactly what they need, our experts said.

As Johan Riddergard observed: "Outside the short-list of preferred or recommended custodian banks, there will always be niche banks that are very good for a specific products or services - so it is important to understand what the client values and be prepared to deviate from the standard recommended list when there is a better solution for them."

The contributors to this report also highlighted the importance of recruitment and *advisor* preferences in custodian choices. The common scenario is for bankers desiring to work in a smaller set-up to join an EAM, bringing loyal clients along with them. They are unlikely to want to further unsettle these clients by asking them to immediately change custodian; they may also feel more confident about their ability to serve clients well if they are working with an institution where they know the processes and people intimately. As will be discussed, the quality of service provided to EAMs is front of independent advisors' minds.

THE ROLE OF RISING ASSET THRESHOLDS

Meanwhile, one of the key drivers towards EAMs committing a greater proportion of client assets to a smaller group of custodians seems to be what the banks themselves are asking for. EAM business may well be very attractive to banks, but it also has to be conducted profitably, making maintaining scale a key priority.

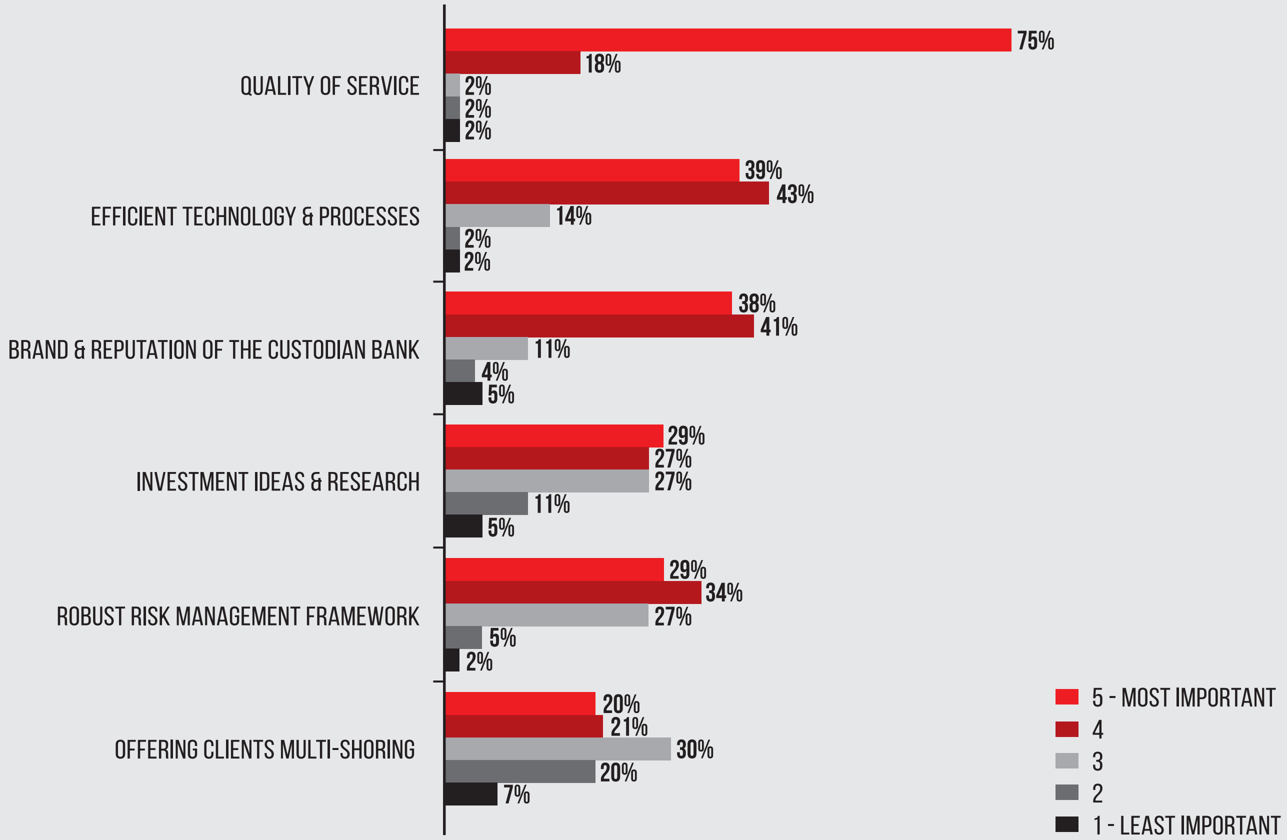
As our research on the EAM market in Switzerland first highlighted several years ago, smaller independents were increasingly finding their ability to work with a wide array of custodians curtailed by a lack of critical mass. In 2014, it was found that 28% of Swiss EAMs had less than US$100 million in total AuM, while minimum thresholds of US$30 million (if not more) to work with a custodian were widely spoken of[64].

In Asia, as in the Alpine state, it seems that custodians are now also increasingly moving to protect profitability by raising minimum asset thresholds for EAMs to join their platform. With thresholds of US$30 million again mentioned, it seems likely that the 14% of Asian EAMs running US$50 million or less in client money will struggle to work with more than a handful of banks going forward.

However, for EAMs of all sizes, there may be great wisdom in having a smaller roster of carefully-selected custodian banks, since there seems to be a great deal of variation in the quality of EAM offerings.

"IN NORTH ASIA, THE INDEPENDENT MODEL IS VERY NEW, AND WHILE IT'S MUCH MORE PREVALENT IN SOUTHEAST ASIA, IT IS STILL NOWHERE NEAR AS EMBEDDED AS IT IS IN EUROPE AND THE US."

FIGURE 27
EAMs' criteria for selecting their main custodian bank



UNPICKING THE RECIPE FOR A "GO-TO" CUSTODIAN BANK

As Figure 27 shows, quality of service is the biggest factor in custodian selection by a very wide margin. Three-quarters of respondents said that this was of maximum importance in their decision, way ahead of the (almost tied) second and third most important factors: efficient technology and processes, and the brand and reputation of the bank.

"Service" is however a very broad term encompassing several interlinked elements, the experts observed. Yet, as ever in the "people business" of wealth management, the commitment level of the individuals' one works with seems chief. As Thomas Koechli said: "A lot of the service quality you receive is down to the people you are dealing with at the bank and how interested they are *personally* in servicing EAMs really well."

However, the operational set-up of the EAM offering is a huge factor too. Last year's report highlighted the problems that can arise when banks attempt to service independent asset managers almost as an "afterthought", and this seems to be something EAMs continue to be wary of.

As Lucie Hulme pointed out, successfully serving EAMs is dependent on banks recognising that this is, in fact, "a whole new segment to implement". Yet having a dedicated function is not the end of the story.

On this point, Koechli explained: "At one end of the spectrum you have the asset-owner who deals directly with the bank and is serviced by their advisors; at the other is a bank's EAM group considering the EAM as their client, with them in turn effectively directly servicing the asset-owner.

"But you may have an asset-owner who deals with an EAM and prefers to be handled by a bank's end-client team for very specific reasons. If you have certain relationships that are somewhere in between what's typical, you are at risk of falling through the cracks.

"Some banks tend to implement their EAM model too strictly. So while it's very important to have a focus on this segment, it's equally important for banks to be able to respond to specific needs."

Clearly, the wide range of investors (and preferences) to be accommodated means there needs to be both clarity *and* flexibility in how both the EAM and the end-client are serviced and "owned".

This, the panel observed, requires a thoroughgoing appreciation of how the EAM model works in practice. Here, very rapid advances already seem to have been made.

"A couple of years ago, some banks had difficulties understanding our business model and failed to recognise the growth potential of this segment in Asia: the service and support provided was sometimes poor and not in line with our real needs," said Lucie Hulme. "We can see now that this has clearly changed as most of the banks are putting a lot of effort in to attract EAMs and deliver the best possible service for this segment."

EFFICIENT TECHNOLOGY AND PROCESSES CRITICALLY IMPORTANT

While sub-optimal technology platforms and interfaces were not the EAMs' *biggest* pain point when working with custodians, inadequacies in these areas do seem to be a significant area of concern.

On aggregate, 71% of respondents said that poor platforms and interfaces were a significant or critical pain point in their collaboration with banks (see Figure 29). Correspondingly, efficient technology and processes were rated as the second most important factor when selecting a primary custodian, with 39% of the votes.

Contributors to last year's report highlighted that some EAM offerings were woefully inadequate on the technology front. Unfortunately, that still seems to be the case, with several contributors citing the need for trade orders still to be emailed or called in.

Given the importance of specialist investment expertise and responsiveness to the EAM value proposition, speed of execution is crucial (as we have seen, almost a tenth of EAMs see best-execution and efficient processes as foundational to their value proposition). A lack of digital trading capabilities, particularly when combined with inadequate service from banks, can therefore be disastrous.

Outlining one worst-case scenario, Alex Zeeh said: "From my own experience and talking to friendly competitors, I know that it is only too possible for you to email the bank an order to execute only to find a day later that your client didn't make it into the market.

"When the bank is understaffed and they aren't picking up the phone, you could have the embarrassment of the client calling to ask if you sold their stock and having to say 'I don't know'.

"The optimal mix of service, professionalism and technology are all so very important to our sector."

Indeed, many see technology provision as *the battleground* for EAM business as competition heats up. As Jessica Cutrera pointed out, interactive brokers and investment platforms are increasingly pitching into the space alongside banks, raising EAMs' expectations very rapidly indeed. "I think the banks that are going to win in the EAM space are the ones who are going to really evolve technologically and assist with order management systems and trade compliance," she said. "Yes, EAMs want the brand, the service and the flexibility on pricing, but they also increasingly want to see *real* innovation on technology – that's where to really differentiate."

"Technology is so important today and the better the bank's platform the easier and better it is for us to do business with them," added Kenneth Ho. "Frankly, today we're increasingly seeing other fintech solutions that are looking much more interesting than those from the less innovative banks."

With this in mind, it is highly significant that efficient technology and processes were seen as far more important for EAMs in the sub-US$50 million range (see Figure 28). These smaller independents may be presumed to be less able to make large IT investments themselves and so may very much appreciate being able to leverage the technology of their custodian banks.

Alongside trading, enhanced reporting capabilities were also highlighted as an area where banks can really add value for EAMs, helping them to do so in turn for end-investors.

As the experts relayed, many EAMs are (by necessity) quite simplistic on this front and merely give clients statements from their respective bank(s) unchanged. Yet far more is needed for EAMs to assume the role of "alpha asset allocator" and gain more wallet share – as many must surely wish to do.

Aggregated reporting is of course something that the industry has been generally grappling with for many years, but this means providing a truly holistic overview can be a tremendous differentiator. As Philippe Legrand pointed out, there are legitimate reasons why banks may not wish to go down this route, but this creates a real opportunity for EAMs.

"From a regulatory point of view, banks tend to shy away from consolidated overviews because legally they don't want to give the impression they are confirming what other institutions have," he said. "So although it's a real value-added service that is pretty straightforward to implement it is something that tends to be done externally because it's becoming harder and harder for people within banks to do it."

The growth in consultancy-type offerings that consolidate all clients' assets (and their reported expensiveness) bolsters the case for EAMs to step into the breach here. Yet here again, much depends on the technological connectivity between providers that is in place.

"If you are forward-thinking and committed to a broad offering, you should be aiming to provide value-added advice across all clients' assets, across all their banks," Ho observed. "However, without the proper technology in place on both the bank and EAM side, you are never going to be able to offer that kind of advice."

SMOOTH, SPEEDY ONBOARDING *INCREASINGLY* CRITICAL

As in 2016, this year's survey shows time-consuming client onboarding processes as by far the biggest pain point EAMs experience when working with custodians. In fact, it seems that the onerousness in this area has significantly increased: while in 2016 48% of respondents saw this as a severe pain point, 71% do today.

This trend came as no surprise to the expert contributors to this report, since client due diligence standards are *continually* increasing in stringency. The ongoing global

> "FROM A REGULATORY POINT OF VIEW, BANKS TEND TO SHY AWAY FROM CONSOLIDATED OVERVIEWS BECAUSE LEGALLY THEY DON'T WANT TO GIVE THE IMPRESSION THEY ARE CONFIRMING WHAT OTHER INSTITUTIONS HAVE."

FIGURE 28

Criteria rated as most important vs AuM of firm

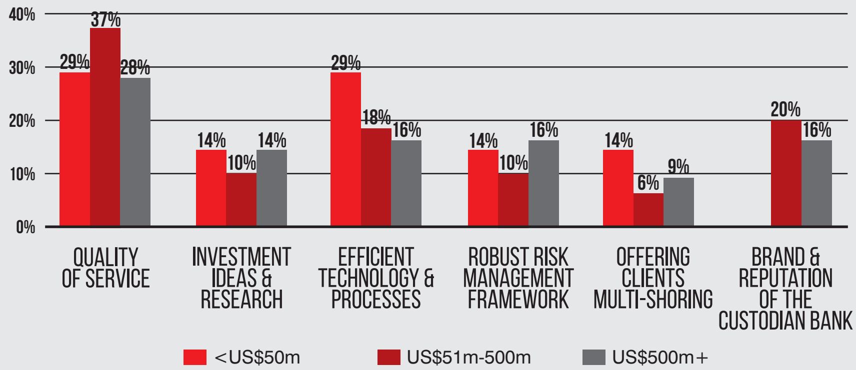


FIGURE 29
Key pain points when working with custodians

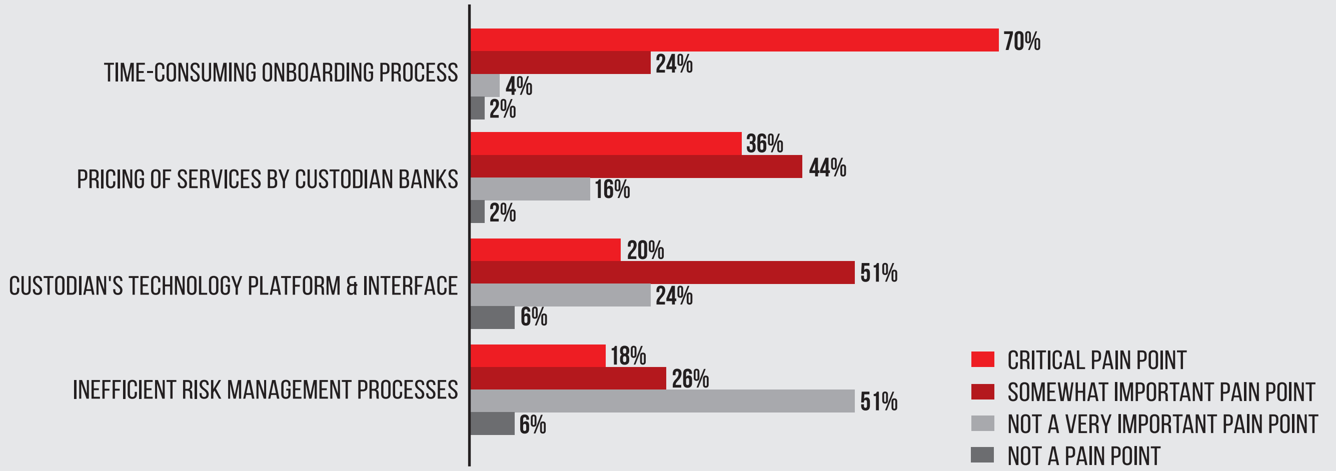
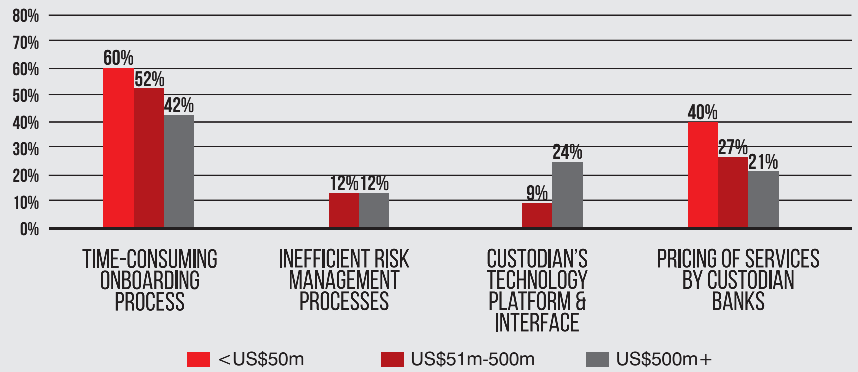


FIGURE 30
Critical pain point vs AuM of firm



"IT IS AS TO BE EXPECTED THAT MOST EAMS WOULD SEE ON-BOARDING AS A MAJOR PAIN POINT, BUT IF YOU POLLED AN INSTITUTION'S OWN BANKERS YOU WOULD PROBABLY FIND THEY SEE IT AS JUST AS MUCH OF A CHALLENGE."

crackdown on financial crime and a series of high-profile scandals means regimes all over the world are very much tighter than even ten years ago, it was said. (As discussed on p29, several Asian regulators have been simultaneously ramping up on due diligence and transparency, while also becoming more accommodative of wealth management business.)

As previous *WealthBriefing* research has shown, over half of wealth managers believe extended due diligence procedures have negatively impacted the client experience and three-quarters worry about clients dropping out of the onboarding process as a result[65]. The "need for speed" will be even more urgent when investor visas (such as those being offered in Thailand) are at stake.

Just as there may be great potential for EAMs to leverage the technology platforms of custodian banks, they may also greatly benefit from their expert global compliance team – particularly when dealing with clients from emerging markets.

"It is as to be expected that most EAMs would see onboarding as a major pain point, but if you polled an institution's *own* bankers you would probably find they see it as just as much of a challenge," said Aniruddha Ganguly. "At UBS we're highly aware that onboarding is one of the biggest drivers of client experience across the business, so we're very focused on applying all our collective knowledge and the highest standards of operational excellence in that area."

PRICE-SENSITIVITY RISING

This year's survey shows that the pricing of custodian services has more than doubled in importance to now stand second in EAMs' rankings of top concerns. This year 36% of respondents identified pricing as a critical pain point, compared to 17% in 2016. As Figure 30 shows, price-sensitivity is particularly pronounced among the smallest firms.

As well as their own cost-pressures, EAMs also face a strong drive towards greater transparency from Asian regulators which will make end-clients ever more aware of how much each element of their wealth management provision costs – including custodian services. So while it may not be the case that custodian pricing is wildly diverse in Asia currently, EAMs are likely to be focusing on even small differences more and more (so long, of course, as elements like service and technology provision are comparable).

As such, our experts confirmed that EAMs today will very much "shop around" to see which banks are most competitive. "Even if an EAM has to trade with bank A because that's where their assets are, they will ask banks B, C and D for pricings," said

Alex Zeeh. "If they see even slightly more competitive prices at another bank, they'll aim to take their next clients there."

On the point of pricing becoming generally more competitive, it seems that much depends on the further maturation of the EAM model in Asia along Western lines. According to Philippe Legrand, the crux of the matter is that the way pricing is formulated currently in Asia is diametrically opposed to European methods along fee versus retrocession lines.

"On custodian pricing, the problem is the way it is currently done in Asia is different to the way it is done in Europe, where you can get access to a custodian platform based on a flat fee and basis points paid to the institution," he explained. "In Asia, retrocessions are still what is put forward by most of the banks, which is obviously far more expensive."

Here, a number of independent advisor contributors to this report argued that the cost-effective way that EAMs help banks build scale should act as a further spur for them to be as competitive on pricing as they can be.

The first reason for this is that most banks prefer to have EAMs carrying out due diligence on clients, with them overseeing and double-checking the work done; the second reason is the removal of the costs and risks associated with employing people to handle those clients.

Here, Anthonia Hui concluded: "EAM business reduces the amount of effort a bank has to put in to onboard a client and on top of that reduces the ongoing staffing costs of having assets under management.

"With us, they get the assets but without the manpower and HR costs of having a relationship manager or investment consultant, or maybe even both.

"The EAM takes over those two functions for the bank by using its execution and custodian platform; moreover, the bank will have already invested capital resources into this platform, so that's not an additional cost for them to serve an EAM – in fact it's a reduction in costs."

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CONCLUSION

As our readers will know, *WealthBriefing's* research output has and continues to cover the whole spectrum of issues affecting the wealth management industry, ranging from granular examinations of technology and operations through to broader studies covering whole segments or markets. Several have examined universal themes such as client due diligence, client experience and branding and marketing on a global basis, addressing all the sub-sectors and styles of business in the space.

Diversity is the theme uniting all of these works. As is well known, wealth management is an incredibly "broad church", covering a huge array of business models, types of organisation, regulatory regimes and target client segments. Asia's rapidly-expanding EAM sector is an excellent example of how striking this variation can be - both inter- and intra-market. As the findings of this report (and its title) underscore, Asian EAMs are being taken in numerous "new directions" by a variety of challenges and opportunities.

Our 2016 report, "A Tale of Two Cities (for Now): The Rise of External Asset Managers in Asia", sought to understand where the sector stood in Singapore and Hong Kong against Switzerland, the heartland of wealth management and the most developed EAM market in the world. This year's project took in a far broader sweep to unpick where firms across the region are diverging on elements like their business style, fee models and investment offerings, and to include more insights on nascent markets ripe for EAM expansion.

As both this and last year's reports noted, many of the differences seen are attributable to where individual centres stand in their development as wealth management markets generally and, in turn, how well entrenched the EAM model is. Client acceptance of fee-based advice and discretionary investment management mandates is growing, albeit at very different rates across the region, while similarly regulators range from being highly supportive of the EAM model to being quite restrictive at face value. In several markets independent advisory firms need to overcome not just a lack of understanding of how they work, but also regulations that seem intended to curtail the cross-border business that is the lifeblood of many EAMs.

In just one year, there has been a significant jump in the degree to which cross-border regulations are seen as a business constraint. So, although many markets outside of the main hubs of Singapore and Hong Kong may be attractive in terms of HNWI growth and demand for wealth management services, the feasibility of actually pursuing business in them remains to be seen. With cost pressures affecting every strata of the industry, even global banking groups are treading carefully with their expansion plans; small (and likely start-up) organisations like EAMs are likely to be even more circumspect.

Wealth managers of all types – EAMs included – face a future of tightening regulation, growing cost pressures and an ever more demanding and cost-conscious client base. Yet for all this, our report shows strong and growing optimism for the independent model year-on-year. The EAMs we surveyed and interviewed foresee rapid growth in market share and new business launches – as do the custodians they work with. Again, the passage of just one year has seen a rapid improvement in the service provision offered to EAMs and leading custodian banks, like UBS, continue to make huge efforts to facilitate independent advisors in their work.

EAMs can now increasingly expect to be treated as a specialist segment, with bank teams dedicated to them and cutting-edge technology platforms in place. How these partnerships continue to develop will be very interesting to see, particularly in the "Emerging Asia" markets predicted to show explosive wealth growth. We look forward to tracing the progress made by the sector pan-Asia in our next report.

WealthBriefingAsia and UBS would like to extend their warmest thanks to all the EAMs, senior wealth management executives and other experts who were kind enough to contribute their thoughts to this report. As ever, feedback on any of the issues that emerged would be most welcome.

WENDY SPIRES
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METHODOLOGY

SURVEY SAMPLE:

For the quantitative elements of this study, 78 EAMs were surveyed for this report between March and April 2017.

In-depth interviews with 20 senior wealth management executives and consultants were also carried out to illuminate its findings.

The location, AuM and regulatory licensing of the participants broke down as follows: