A TALE OF TWO CITIES (FOR NOW)

THE RISE OF EXTERNAL ASSET MANAGERS IN ASIA

WealthBriefing WealthBriefing Asia UBS

CONTENTS

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Reto Marx has served as the regional head of UBS's global financial intermediary business (FIM) for the Asia-Pacific region since 2010, and is member of the IPS customised advisory executive committee. He has spent over 16 years in Asia, based in Singapore, and held various senior management roles prior to joining UBS.

Marx was branch managing director and head of Southeast Asia at Bank Sarasin-Rabo between 2008 and 2010, and was also member of the executive board and board of directors of Sarasin-Rabo Nominees. For eight years prior to this he held the post of head of international wealth management and market leader for Australasia at Credit Suisse. From 2004 until he left the firm in 2008 he was also member of the Asia-Pacific executive committee and portal advisory board.

WENDY SPIRES
Head of Research
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Report Author

Wendy has been a wealth management journalist and research writer for eight 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.

STEFANO VERI
Group Managing Director
UBS

Stefano Veri has been working at UBS AG for more than 30 years. After his apprenticeship he started as client advisor and from 1992, he started to cover management positions in different areas of the bank.

In 2011 he was appointed head of the ultra high net worth segment for global established markets, and afterwards head of the European cross-border business, which he led through the business transformation until end of 2014.

Veri has been recently appointed head of customised advisory, where he is responsible globally for financial intermediaries, active portfolio advisory services and direct access offerings.

SPECIAL THANKS

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- Deloitte Switzerland
- Mark Hedderman, CEO, Custom House Global Fund Services
- Dominic Gamble, CEO, WEALTH
- Lee Goggin, Co-Founder, findaWEALTHMANAGER.com
- Jason Lai, Founder and CEO, Thirdrock Group
- Elmar Meyer, Partner, GHM Partners
- Mandeep Nalwa, CEO, Taurus Wealth Advisors
- Tony Kan, Managing Director (Hong Kong), Custom House Global Fund Services
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EDITORIAL PANEL

URS BRUTSCH
Managing Partner & Founder
HP Wealth Management

Co-Founder
Association of Independent Asset Managers, Singapore (AIAM)

Urs Brutsch founded HP Wealth Management in 2009 after three decades in various banks. He arrived in Asia in 1986 for Credit Suisse and was instrumental in building its private banking business in Southeast Asia.

In 1999 Brutsch moved to ABN AMRO as the head of private banking for Asia-Pacific, and again built out the franchise before moving to Clariden to widen its footprint in Asia.

Having been involved in building three private banks in Asia he felt that it was time to build a business which truly reflects what private banking should be all about: relationships, not products.

JESSICA CUTRERA
Managing Director
EXS Capital

Jessica Cutrera is a founding partner, managing director and the head of operations and compliance for EXS Capital. She is an expert in many areas of corporate and individual financial, regulatory and tax issues, particularly in regards to American expatriates.

Cutrera manages an independent American-oriented wealth management practice in Hong Kong, focusing on asset management and estate planning. She and her team specialise in providing comprehensive wealth management and planning services to US citizens expatriated to Asia, and to individuals and businesses with US-related planning needs.

During her 12 years in Asia, Cutrera has built this practice into a comprehensive wealth management service, with an active presence across Asia-Pacific.

STEVE DAVIES
Chief Executive & Founding Partner
Javelin Wealth Management

Steve Davies is the chief executive and founding partner of Javelin Wealth Management in Singapore. Javelin works as a fee-based advisor for high net worth individuals and family offices, managing investment portfolios and advising on long-term wealth planning.

Prior to setting up Javelin in 2003, Davies worked as a stockbroker and senior director of Hoare Govett/ABN AMRO's Asian institutional equity business for 13 years, during which he participated in a successful management buyout.

ANTHONIA HUI
Chief Executive
AL Wealth Partners

President
Association of Independent Asset Managers, Singapore (AIAM)

Anthonia Hui 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, Hui manages multiple generations of wealth and takes on board key family office functions.
Hui is a former banker in 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. Hui co-founded the Association of Independent Asset Managers in Singapore, a professional body of independent asset management (IAM) firms, to support Singapore's drive to be a leading global wealth management centre. As president, Hui leads initiatives to assist members in promoting industry best-practices as well as understand and meet regulatory issues related to IAMs' independent business model.

MIKE IMAM
Co-Founder & Chief Executive
Silverhorn Investment Advisors

Mike Imam is a co-founder and current chief executive of Silverhorn Investment Advisors. Prior to joining Silverhorn, he was a director at Schroders Asset Management in Hong Kong, where he headed the wealth management distribution in Asia and was responsible for the development of Schroders' business through private banks in the region as well as through intermediaries in Mainland China.

Prior to joining Schroders in 2006, Imam worked at Credit Suisse as the head of Asian private banking advisory & asset management division.

TAREK KHLAT
Co-Founder & Group Chief Executive
Crossbridge Capital

Tarek Khlat has over 15 years of experience in private banking and wealth management. As group chief executive, Khlat leads the firm's businesses that serve the wealth management and merchant banking needs of HNW clients globally. Prior to launching Crossbridge Capital, he was managing director and group head for the Middle East at Credit Suisse in London, where he helped build a significant wealth management portfolio, as well as being responsible for managing and supervising over 20 professionals covering HNW individuals and institutions from the Middle East. Before joining Credit Suisse, Tarek was a vice president at JP Morgan Private Bank from 1995 to 2000. From 1988 to 1993, he worked for several leading media companies, including CNN, where he headed the financial news gathering division, and Fox Broadcasting Company, where he was responsible for story coverage and editorial content of weekend newscasts.

EUGENE LEE
Managing Partner
Carret Private

Eugene Lee has over 20 years of experience in banking and also has been an entrepreneur in the technology sector. He began his career at Morgan Stanley & JPMorgan Wealth Management before joining JPMorgan's securities equity derivatives group. Subsequently, he joined HSBC's global markets and became the head of structured products sales, APAC. Lee later joined BBVA as the co-head of global markets, APAC, integrating their investments into Citic Bank, and a strategic advisor to key projects in promoting low carbon emissions and special economic development zones in China; and in 2012 led E-Fund Management – with Lee serving as global head of sales, the firm listed the world's first RQFII ETF on the Hong Kong Stock Exchange. In 2010, he pioneered one of Asia's first augmented reality company, Nsocialnetwork. In 2012, he headed the fintech project Deritrade (a structured products exchange) for Vontobel Investment Banking.

PHILIPPE LEGRAND
Chief Executive
London & Capital Asia

Philippe Legrand is chief executive 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 financial needs, in either wealth management or corporate advisory for their family business. He has accumulated 30 years of senior management experience with international banks in private, corporate and investment banking. Legrand developed the Asian private banking platform for Rabobank/Sarasin in the late 1990s and subsequently headed the private banking North Asian 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, he has also worked in Europe, North America and India. He is a regular speaker at wealth management and asset management conferences in Asia as well as being a judge for awards within the industry.

EXECUTIVE SUMMARY

1) STRONG GROWTH EXPECTATIONS FOR EAM MARKET SHARE; MORE INDEPENDENT WEALTH ADVISORS EXPECTED TO EMERGE

The participants in this study, who were based in the main in Singapore and Hong Kong, varied quite widely as to their estimates of the share of private wealth managed by EAMs in their centre. Yet more than two-thirds of participants believe that EAMs manage up to 10% of the private wealth in their jurisdiction, while over a third think it's less than 5% currently.

An overwhelming 90% of participants believe that the market share of private wealth managed by EAMs in their location will increase in the next three to five years, however; the remaining tenth see EAM assets remaining stable.

Eight in ten respondents also see more EAMs springing up with hopes of joining in their success, while none foresee consolidation or closures.

2) ASIAN WEALTH HUBS WELL-POSITIONED ON THE WORLD STAGE, WITH INTERNATIONAL CLIENTS AS CORE BUSINESS

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

Unsurprisingly, given our Hong Kong/Singapore focus, over half of participants lean towards serving international clients, although only 10% cater solely to this market. Four in ten of the EAMs have an equal split of domestic and international clients on their books, while a small contingent work only with international ones.

However, cross-border regulations are seen as a big challenge for EAMs in Asia as they try to attract international business, with 60% seeing a negative impact and a quarter believing this to be serious.

3) VARIED OFFERINGS FROM EAMS IN ASIA

Nine in ten respondents offer discretionary portfolio management, with only slightly fewer offering advisory investment services (of course, in the broader industry in Asia-Pacific, the advisory mandate is the more common model). Wealth planning is offered by just over a third of participants, and brokerage and execution by just under a third.

The services offered by the 35% of respondents saying they had a broader proposition ranged from life insurance through to corporate advisory, and also included very family office-orientated services like drawing up family charters and wealth counselling.

4) EAMS EQUITIES-ORIENTATED, BUT WITH A BIG FOCUS ON ALTERNATIVES

When asked to identify the top products used by their clients, Asian EAMs ranked equities convincingly at number one with 73% of the votes, followed by bonds (68%) and hedge funds/private equity (41%).

Here, EAMs' positioning of their proposition (ie that they offer a very broad investment palette, including alternatives and structured products to their clients) is clearly in evidence.

5) INVESTMENT EXPERTISE, STAFFING AND STRATEGIC ALLOCATION ARE THE DRIVERS OF SUCCESS

Over a third (35%) of EAMs in Asia see their investment expertise as the most important part of their proposition, with this significantly ahead of providing a long-lasting relationship and trust (26%).

Securing the right staff was marked out by EAMs as the most important determinant of their future success by a wide margin: an overwhelming 96% see this as either important or very important - notably almost three-quarters see it as very important.

Strategic asset allocation is regarded as a key success factor by over three-quarters of participants. This clearly aligns with the absolute importance of investment expertise, as well as EAMs' common role as the orchestrator of a number of specialist investment managers.

6) EAMS INCREASINGLY "PUTTING THEIR MONEY WHERE THEIR MOUTH IS"

Currently, fees for asset management and advisory services are the stand-out elements of the revenue mix for EAMs in Asia. Revenue from brokerage and commissions forms a large percentage of fees for EAMs in the region at 46%, and trail commissions from funds are a key part of the revenue mix for one in seven of the respondents, both now and projected two to three years hence.

The EAMs included in this study expect the revenue share made up of brokerage and commissions, and fees for advisory services to fall. Meanwhile, performance-linked fees are predicted to almost double in their make-up of revenue shares entirely at the expense of asset management fees, brokerage and commissions. EAMs clearly expect to be putting far more “skin in the game” going forward.

7) RETURNS ON ASSETS CURRENTLY HEALTHY, BUT MAY COME UNDER PRESSURE

Currently, the average return on assets for EAMs in Asia seems healthy according to the respondents. Only 15% of this group reported return on assets of 60 BPS or fewer and 15% also reported a return of over 100 BPS or more, with the bulk of 70% falling into the 61-100 BPS range.

8) CUSTODIAN SELECTION CLIENT-CENTRIC; DIVERSE RANGE ON OFFER UTILISED BY EAMS

Custodian selection is highly client-centric, with clients being part of the decision-making process in over 80% of cases.

There is significant variance in the number of custodian banks Asian EAMs are offering to their clients. While 50% offer up to five custodians, a fifth of participants reported that they have clients choose from 11 or more.

Over half of respondents book 21-40% of their total AuM with their main custodian. Meanwhile, a quarter of EAMs reported placing less than 20% of assets with their “main” custodian – a figure which arguably negates any notion of this being a primary relationship at all.

9) TECHNOLOGY AND PROCESSES TOP BRAND AND REPUTATION IN CUSTODIAN CHOICE

When it comes to EAMs’ own choice of custodian, by far the most important selection criterion in their minds is quality of service, with nine in ten deeming this important or very important. Next was the bank having efficient technology and processes for working with EAMs (78%), and then the brand and reputation of the bank (73%).

The fact that technology and processes are held slightly more important than reputation and brand aligns with the fact that almost a quarter (22%) of EAMs don’t seem to put much store in their own technology offerings being a selling point to clients.

10) CLOSER COLLABORATION IS DESIRED WHEN WORKING WITH CUSTODIANS; ONBOARDING IS KEY PAIN POINT

Generally, Asian EAMs seem to be very much in favour of greater collaboration with custodians, with 80% of respondents agreeing or strongly agreeing that the two sides should partner more closely to better serve end-clients’ interests.

Looking to where difficulties lie when custodians and EAMs partner, we see that client onboarding is as big an issue here as it is across the whole wealth management industry internationally.

An overwhelming 96% of participants said that this was a significant or very significant pain point, which is unsurprising given the lengthy and onerous proceedings that are all too often in evidence.

SECTION ONE

INTRODUCTION: A BRIEF HISTORY OF EAMS AND THEIR APPEAL

Those interested in the evolution of the External Asset Manager segment in Asia might usefully first recap its history in brief.

External asset managers (henceforth known as EAMs) are boutique firms composed of private bankers, lawyers, trust officers and others advising HNW/UHNW clients on the management and investment of funds, bank accounts and other parts of their disparate portfolios.

EAMs are also known variously as Financial Intermediaries (FIMs), independent asset/wealth managers and external investment advisors; multi-family offices can also often be classified as EAMs. Here, as elsewhere, wealth management is a broad church and strictly defining different types of institutions often proves difficult.

One unifying characteristic of EAMs, however, is their *independent* approach to constructing the right product and service package for their clients. Although they may work very closely with banks and asset/fund managers – acting as *intermediaries* and orchestrating wealth management services – they are *external* to them. It is easy to see why there is some debate around the sector's nomenclature.

Models vary regionally, but the global trend is very much towards EAMs earning pre-agreed fees versus product commissions (or at least rebating these to clients). EAMs and their clients are now forming a "single customer view". This was the point of the Retail Distribution Review reforms in the UK, which banned commission being paid to Independent Financial Advisors; it is also an objective of Singapore's Financial Advisory Industry Review.

Investment-wise, some EAMs are generalist portfolio managers while others might specialise in one asset class. Many EAMs may fit more into the role of investment consultant, taking control of strategic asset allocation and adopting a multi-manager approach.

SWISS ROOTS

As might be expected, the external asset manager concept originated in Switzerland, where it might surprise the uninitiated to learn that there are an estimated 4,000 EAMs operating as financial intermediaries today. *WealthBriefing* research suggests that EAMs in Switzerland are generally very small organisations, with a third of firms having four or fewer members of staff and only around a fifth having over 20[1]. Despite this, and as a testament to the model's appeal to (often very large) clients, EAMs are thought to control perhaps one-fifth of all assets under management in Switzerland.

EAMs have been very common all over Europe since the 1990s and the proposition has been gaining traction in Asia for about a decade. Its appeal here is boosted, as elsewhere, by the trust issues engendered by the financial crisis. The first EAMs in Asia were predominantly Western exports – very often, in fact, from Switzerland – yet domestic players quickly emerged.

EAMs differ widely in their genesis. However, commonly they were initially set up by an entrepreneurially-minded private banker wishing to strike out independently to offer a loyal core of clients a more tailored, personal service than – they might say – is possible at a large institution.

In many ways, EAMs are tapping into the "best-of-breed" zeitgeist, with their independence a huge draw to clients seeking a "trusted advisor" relationship with real longevity. Crucially, through their relationships with custodians, they are also able to offer clients big-brand reassurance where required. Safety of assets remains a top concern for clients internationally.

A TRIPARTITE RELATIONSHIP

The tripartite relationship between end-clients, EAMs and custodian banks is typically arranged as follows:

The client signs a limited power of authority (LPOA) authorising the EAM to manage their assets and give instructions to custodian banks to execute orders. The EAM and bank, meanwhile, enter a "framework agreement" which sets out the services (such as research or trading platforms) to be provided. In a typical framework agreement, there is also a clause obliging the EAM to inform the client about any risks associated with the investments and another absolving the bank of liability for all faults in the EAM's services. The client, with or without a recommendation by the EAM, will open accounts at the custodial bank (which will then safeguard their assets).

As will be discussed, there is also extensive support provided by the custodian bank beyond this, spanning investment platforms, research and compliance. Although boundaries of independence must be carefully observed, there is clearly a great deal of scope for EAMs and the custodians serving them to collaborate usefully for the benefit of end-clients.

WealthBriefing is delighted to have partnered with UBS to trace the development of the EAM sector in Asia, particularly having already researched it in Switzerland over a number of years. This report will reveal an abundance of similarities - as well as striking differences - between the two that we believe make its observations of relevance to our entire audience of wealth management professionals globally.

We are thrilled to have been able to gather insights from such a wide range of EAMs and senior industry figures for this research. We are most grateful for their input and that of the HNW individuals who also contributed their views.

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

WENDY SPIRES
Head of Research
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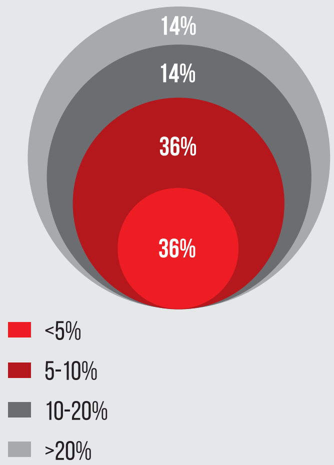
SECTION TWO

A GROWTH SPURT FOR ASIA'S EAM SECTOR

FIGURE 1
What do you estimate the share of private wealth managed by EAMs in your location to be?



ESTIMATES OF EAM-MANAGED WEALTH

The participants in this study, who were based in the main in Singapore and Hong Kong, varied quite widely as to their estimates of the share of private wealth managed by EAMs in their centre. Yet, most EAMs' responses clustered in the sub-10% region: more than two-thirds of participants believe that EAMs manage up to 10% of the private wealth in their jurisdiction, while over a third think it's less than 5% currently.

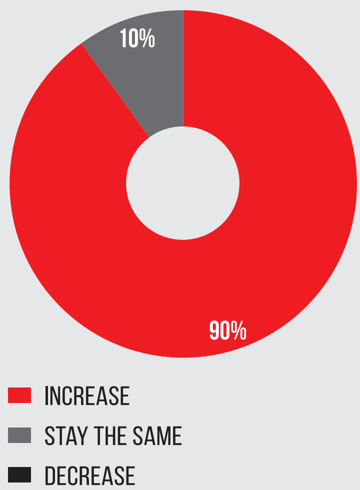
According to Stefano Veri, Group Managing Director, UBS, estimates in the latter of those ranges would be correct today, tending towards 3% in Hong Kong and 5% in Singapore – but he, like EAMs themselves, predicts quite dramatic growth. "I expect EAM-managed assets to at least double in the next three to five years, and then to potentially grow even further," he said. "But that will depend on the local regulators."

As has been noted, Switzerland's very accommodative regime for EAMs has led to them managing a significant proportion of private client assets (some say as much as a fifth) and so AuM growth to double-digits in Asia is not beyond the realms of possibility on that basis.

For Mandeep Nalwa, there are two key reasons why the EAM industry – as yet – only represents a very small part of the wealth management landscape in Asia. "Firstly, this is because wealth is first-generation controlled and hence delegation of investment authority does not come easily to the patriarchs," he said. "Secondly, there is no benchmark to fees being charged for advice and it is a fairly foreign concept to high net worth individuals in Asia." As discussed later in this report, fee-based advice is rapidly gaining acceptance as a sign of maturing wealth management markets.

STRONG GROWTH EXPECTATIONS FOR EAM MARKET SHARE

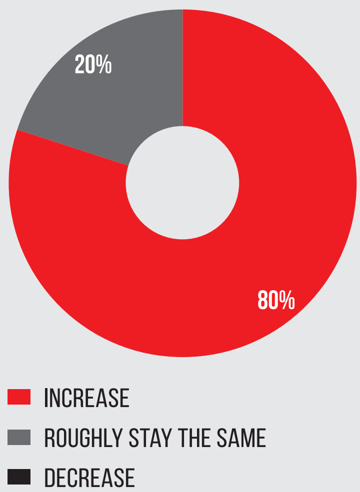
FIGURE 2
How do you expect the market share of private wealth managed by EAMs in your location to have developed in 3-5 years' time?



As Figure 2 illustrates so strikingly, the EAMs participating in this study have very optimistic growth expectations indeed for their sector. An overwhelming 90% of participants believe that the market share of private wealth managed by EAMs in their location will increase in the next three to five years. The remaining tenth see EAM assets remaining stable. Even given the inherent sampling bias that must be conceded, we can say with certainty that those on the ground in Asia's key wealth management hubs see great growth potential for the independent advisory model.

8 IN 10 EAMS EXPECT MORE PLAYERS TO EMERGE IN THEIR MARKET

FIGURE 3
In the next 3-5 years, how do you expect the number of EAMs in your location to change?



Eight in ten respondents also predict more EAMs springing up with hopes of joining in their success, while none foresee consolidation or closures.

While the survey showed buoyant sentiment for the EAM sector in Asia's key hubs - for both number of firms and their share of wealth - the panel did observe that barriers to entry are rising as regulators tighten up their regimes for this kind of qualified investor business.

According to Reto Marx, Regional Head – Global FIM, Asia-Pacific at UBS, hitherto a start-up EAM's first priorities (alongside acquiring the licence to operate) would have been developing partnerships with custodian banks and other service providers, bringing in business and then considering recruiting more advisors. But, while the entrepreneurial drive to build the business on the sales side is certainly still strong, the focus today has to include embracing far more compliance-orientated behaviour by necessity. "The actual execution of risk controls around the business is something many regulators are emphasising really strongly now since they rolled out new regulatory frameworks or licensing regimes," he said. "That's often an area where more work needs to be done."

For Anthonia Hui, while entrepreneurially-minded bankers should certainly feel encouraged, they should be under no illusions as to easy success. Emphasising the fiduciary – and arguably moral – duty the truly independent advisor takes, she advises would-be EAMs to ensure that they are setting up for the right reasons.

"You have to be rather mature and you have to be rather humble to know how much support you can really garner in order to be able to survive," she said. "Those who think of themselves purely as an entrepreneur who will be able to easily bring their books of business to the firm they've started are somewhat naïve."

Hui added anecdotal evidence of young bankers attempting to start up as EAMs in Singapore simply because they don't feel that the fast-enough progression – and pay – at a bank adequately reflects their talents. "Those beliefs are impractical and will not bode well for their survivorship," she concluded.

SINGAPORE VS HONG KONG: A NOTICEABLE AGE GAP

Individuals who have made the decision to set up an EAM in Asia, yet are undecided on Hong Kong versus Singapore for their location, have more to consider than proximity to their target client markets. The EAM sector may be nascent in the markets surrounding Asia's two key wealth hubs, but it is very much entering its adolescence in Singapore and Hong Kong. To extend the metaphor further, the two centres exhibit quite different maturity levels because of the former's seniority in age in an EAM sense.

While EAMs started to come to the fore in Singapore just over a decade ago, the panel observed that the model only really began to gain ground within its Northeastern rival in the past five years or so (although it should be said the Hong Kong panellists' own firms include very early pioneers). Indeed, Mike Imam recalled how even as recently as six years ago, the regulator itself was relatively unaware of the model. "When we approached the Securities and Futures Commission in Hong Kong in 2010, the concept was a totally new one and we had to really explain what we wanted to run under the Type 9 asset management licence," he said. "There were very few firms doing similar things."

According to Jessica Cutrera, this age gap gives rise to several key differences between the EAM sectors in Hong Kong and Singapore. The primary one is the greater fragmentation and prevalence of smaller players in the former, owing to the fact that many Hong Kong firms are less than two years old at this point.

"Many Hong Kong EAMs were launched just 12-24 months ago and are therefore still quite small," she said. "The Association [of Independent Asset Managers] in Singapore is better established and the business model is more widely understood, nevertheless we envision a lot of growth in the Hong Kong EAM space."

Cutrera, like several panellists, emphasised the need for investor outreach and positive PR. "I think the vast majority of the public here probably doesn't understand the independent asset manager model in Asia really, and unfortunately many associate us with Independent Financial Advisors." She added that one of the crucial distinctions that needs to be drawn by EAMs is that they are emphatically *not* IFAs who may be more commissions-driven and have previously been associated with several mis-selling scandals.

Philippe Legrand agrees that brand contamination is an issue that EAMs right across the region need to combat, not only in terms of the professionalism of their services but also possibly the magnitude of wealth they work with. It has certainly proven a challenge in Hong Kong.

"When we started six years ago we were working against some very negative connotations. Bankers offering high-end private banking services, from an independent platform, were an unknown concept. The 'independent' bracket was then mostly associated with IFAs who serviced the expat retail market space, mostly below $250,000," he said. "Most were not licensed by the SFC and mainly promoted funds through insurance-related products that did not have a very good reputation."

The second big difference Cutrera highlighted, and which also relates to the greater immaturity of the Hong Kong EAM sector, is its slight lack of supporting infrastructure in comparison to its Southeastern peer – although the situation has improved in recent years noticeably. "As a more mature industry, Singapore has had more choices in terms of platform and service providers. Now as more Asian and international banks are looking to expand their offering in Hong Kong, we should have more choice," she said.

Estimates vary, but most say that there are no more than 150 "core" well-established, long-running EAMs operating in Singapore and no more than 50 in Hong Kong currently (as discussed, the latter in particular has seen an explosion in EAM growth in the past year). Our research suggests that the surrounding markets have few firms that could properly be considered as such. However, as the final pieces of the wealth management puzzle fall into place the EAM sector's growth could proceed exponentially.

Elmar Meyer, a specialist financial services lawyer who has spent a lot of time also working in Asia's main hubs, certainly foresees this as a key trend, with the evolution of family offices. For Meyer and the other experts on our panel, the transition in Asia from creating wealth to *preserving* it is a standout theme.

"I would expect the number of EAMs to increase in both Hong Kong and Singapore over the next four to five years, with some evolving out of multi-family office structures and others from teams of private bankers leaving banks," he said. "I would foresee a general growth in assets managed by EAMs and family offices across Asia – in particular, family offices have started to become asset managers in their own right and do not rely (only) on third-party asset managers and banks."

"AS A MORE MATURE INDUSTRY, SINGAPORE HAS HAD MORE CHOICES IN TERMS OF PLATFORM AND SERVICE PROVIDERS. NOW AS MORE ASIAN AND INTERNATIONAL BANKS ARE LOOKING TO EXPAND THEIR OFFERING IN HONG KONG, WE SHOULD HAVE MORE CHOICE."

FIGURE 4

Do you agree that your jurisdiction is a politically and economically stable, and competitive, centre for global financial assets?

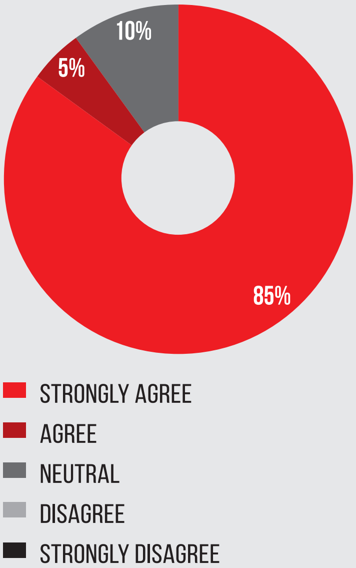
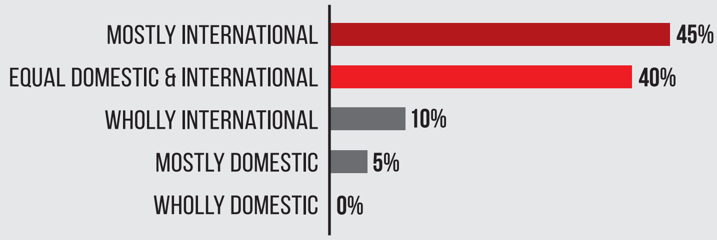


FIGURE 5

What is the split in your client book between international and domestic investors?



ASIAN WEALTH HUBS WELL–POSITIONED ON THE WORLD STAGE

The picture is similarly positive with EAMs' assessment of their jurisdiction's appeal, these being predominantly Hong Kong and Singapore: 90% judge their location as a politically and economically stable centre for global financial assets that is well positioned to compete on the global stage. It should be noted, however, that a tenth of respondents disagree, albeit not strongly.

INTERNATIONAL CLIENTS ARE CORE BUSINESS

Unsurprisingly, given our Hong Kong/Singapore focus, over half of participants lean towards serving international clients, although only 10% cater solely to this market. Four in ten of the EAMs have an equal split of domestic and international clients on their books, while a small contingent work *only* with international ones.

In terms of a split between Singapore and Hong Kong EAMs, half of both cohorts reported that their client base is mostly international. While the other half of Hong Kong respondents noted that their client base is equally split between domestic and international, 7% of Singapore firms had wholly international client bases with an equal portion's formed of mostly domestic clients. As such, it appears that there is no great divide between Hong Kong firms managing international assets (such as an inflow of Chinese wealth), and Singapore showing no preponderance of domestic clients – despite having the highest level of HNWs per capita than any of the other surveyed nations (see p29).

It is likely the case that international clients are already more familiar with the EAM model, simply because those looking for banking services outside their home market tend to rely on intermediaries for referrals (in Asia, in particular, this may be through immigration lawyers). It might also be the case that such clients would be more comfortable being serviced by an intermediary with a strong custodian brand name behind them.

What is clear, however, is that serving a mixed client base from potentially very disparate home markets will call for both significant expertise and a particularly broad service and product offering; cultural differences will also have to be observed.

Investment tastes and clients' level of familiarity with the various solutions that may be deployed is similarly diverse across markets.

Our assessment of the wealth management landscape in each of the Asian markets under examination shows there may be very great differences for EAMs to contend with – along with other institutions attracting clients from nearby markets in Northeast and Southeast Asia to the regions' key offshore hubs (for more in depth analysis, see p26).

CONFIDENCE HIGHER THAN IN SWITZERLAND?

Interestingly, our last barometer of EAM confidence in Switzerland found significantly lower levels of confidence than is seen in Asia's main hubs now: 54% of Swiss independent wealth managers saw Switzerland's global competitive position as only satisfactory, and less than a third (27%) as good. In fact, amid a domestic regulatory overhaul to implement European equivalence and the end of bank secrecy, just under a fifth believed the Alpine state to be in a poor position internationally[2].

In Switzerland (and in Asia, as will be seen), many independent institutions see themselves stymied by new rules. Almost a third of Swiss EAMs believe cross-border regulations are a serious barrier to the number of global markets they can acquire clients in. The cross-border regulatory framework EAMs have to work within in the Alpine state is of course more advanced than in Asia at present; Switzerland's wrangles with Europe to secure "passporting rights" for cross-border products and services are well-documented.

For his part, Reto Marx sees financial intermediaries in Asia moving in the same direction: focusing on a smaller number of markets, but with wealth creation as the main driver of market choices on the positive side (as opposed to cross-border risk considerations only). Indeed, organisations may well have been writing business in certain markets for years, but they increasingly are having to carry out far-reaching revisions to systems and processes to ensure ongoing compliance.

As Marx noted: "Regulators in many countries are taking a closer look at who is fishing in their pond, so to speak, so compliance is an area financial intermediaries need to pay a lot of attention to. They need to not only meet the stringent KYC norms of the custodians they're working with – which might rightfully or not differ to some degree from bank to bank – but also the ever-changing cross-border rules on top, and that obviously drives costs."

"If you're doing cross-border business you have to look at every single activity to ensure it is compliant and you are doing it in the right way. That's a little bit different to simply just knowing the client or having travelled to the country for a considerable time," he added.

CROSS-BORDER REGULATIONS – FOCUSING BUSINESS ON FEWER MARKETS?

FIGURE 6
Do you agree that cross-border regulations reduce the number of markets in which external asset managers can acquire clients?

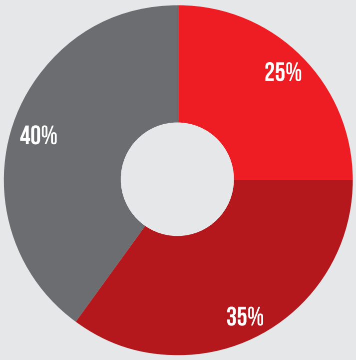


Figure 6 above shows that cross-border regulations are seen as a big challenge for EAMs in Asia as they try to attract international business from a wide set of markets.

While 60% do see a negative impact and a quarter believe this to be serious, it should be noted that 40% are neutral on the inhibiting effect. Significantly, last year HNW investors in the Asia-Pacific region had the highest allocations to international investments globally[3].

Here, it was also observed that, as well as wealth managers becoming perhaps slightly inured to all the rules and regulations those serving international clients have to contend with, it is also possible for them to make a very big virtue of being able to comply with them effectively to clients – particularly those used to the vagaries of cross-border compliance. US clients are a case in point here.

Although internationally many firms have ceased serving US clients because of the travails of FATCA compliance, those which made the necessary systems and process overhauls ahead of time were quick to welcome these individuals with open arms.

TOWARDS A BETTER CLIENT EXPERIENCE (FOR ALL STAKEHOLDERS)

This study shows that client onboarding is by far the biggest pain point for EAMs when dealing with custodian banks, and *WealthBriefing* research has shown that the negative impact compliance has on the client experience is actually a massive worry for the wealth management industry as a whole.

Over half of wealth managers believe the extended compliance-related questions required today have had a negative impact on the overall client experience during onboarding and a tenth see a very deleterious effect. Three-quarters are concerned about clients dropping out during the onboarding process and a third are very worried about losing business due to all its well-known bottlenecks and inefficiencies[4]. Furthermore, as discussed in our recent research on KYC procedures, the "need for speed" may in fact be very urgent indeed, such as in the case of overseas investors needing money to "land" in a target jurisdiction on deadline in order for an Investor Visa to proceed[5].

It is left to EAMs and the custodian banks serving them to work together to enhance the client experience wherever they can, and in particular to improve well-known pain points. Perhaps onboarding is one area in which the two sides may partner far more closely for the benefit of clients without fear of compromising independence.

As Figure 11 shows (see p17), regulation and risk runs a close second to investments in the rankings of where Asian EAMs would most appreciate thought-leadership from custodian banks. Tax reporting, while perhaps not the most prepossessing of subjects, appeals to 27% of EAMs. The impact of regulatory upheaval in Asian jurisdictions and supranational rules like the Common Reporting Standard on tax information exchange is clear here.

SECTION THREE

BUOYANT BUSINESS SENTIMENT BASED ON INVESTMENT EXPERTISE

FIGURE 7

What services does your institution provide?

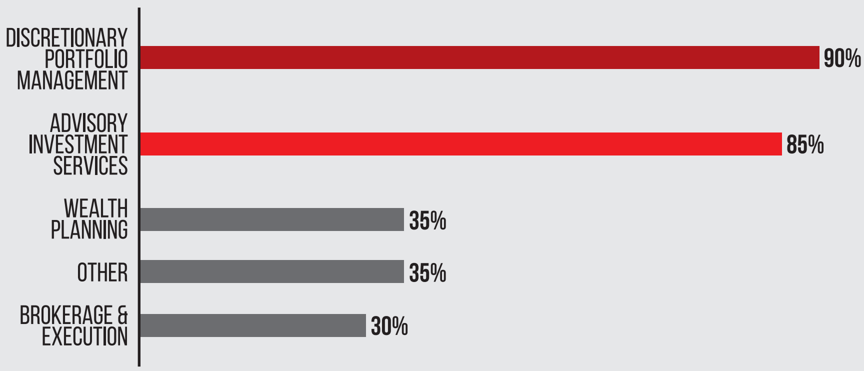


FIGURE 8

Which best describes your business model?

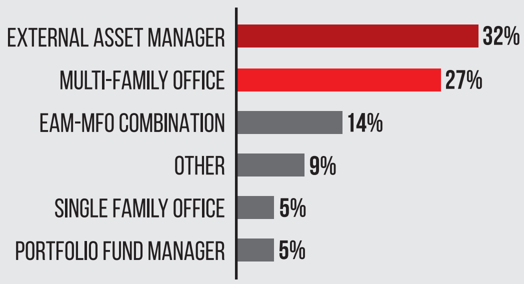
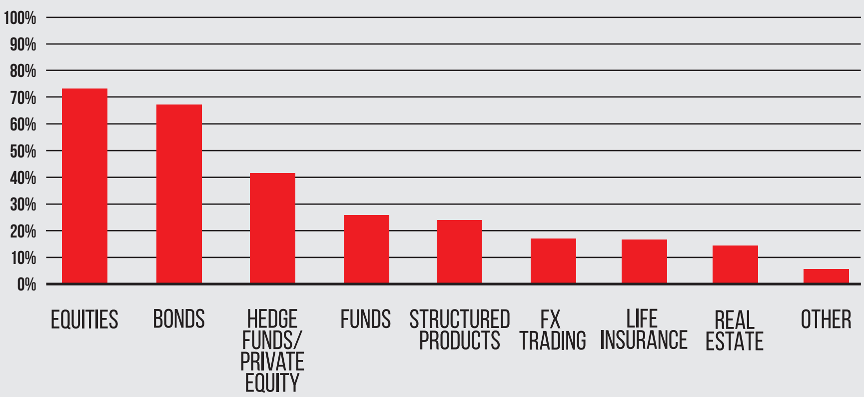


FIGURE 9

What are the top products used by your clients?



VARIED OFFERINGS FROM EAMS IN ASIA

Nine in ten respondents offer discretionary portfolio management, with only slightly fewer offering advisory investment services. Wealth planning is offered by just over a third, and brokerage and execution by just under a third.

The other services specified by the 35% saying they had a broader service offering were varied (Figure 7), ranging from life insurance through to corporate advisory and very family office-orientated services (such as drawing up family charters and wealth counselling). This is expected, given that almost half our sample see at least some element of being a family office in their make-up. Indeed, one Singaporean respondent said that his firm positions itself on its "unique ability to advise clients on equity and debt funding, and use of funds for structuring family wealth".

"The approach of clients is quite diversified in our experience. But the majority, particularly the entrepreneurs, prefer direct deals because it appeals to their experience and entrepreneurialism so they have an affinity towards investing directly in companies," said Jason Lai. "Sector-wise, some prefer to diversify, moving out of their comfort zone to spread risk, while others like to stay in their areas of expertise, especially when it's in a forward-looking industry like technology or renewable energy."

EAMS EQUITIES-ORIENTATED, BUT WITH A BIG FOCUS ON ALTERNATIVES

When asked to identify the top products used by their clients, Asian EAMs ranked equities convincingly at number one with 73% of the votes, followed by bonds (68%) and hedge funds/private equity (41%).

EAMs' greater focus on equities is well-warranted given the favour shown to this asset class alongside cash and real estate over bonds in Asia-Pacific generally. In 2015 the region's HNW asset allocations were as follows: 22.8% equities; 23.1% cash and cash equivalents; 21.4% real estate; 18.7% fixed income. Allocations to alternatives stood at 14% in 2015, slightly ahead of the global average of 13%[6].

Here, the EAMs' position of offering a very broad investment palette (including alternatives and structured products) to their clients is clearly in evidence. Only 36% of participants selected funds as a top product used by clients. That EAMs say their work focuses more on hedge funds and private equity, rather than what might be thought of as "vanilla" investments, aligns well with what HNW clients interviewed for this study said on where they see value.

One HNW client based in Singapore said:

"I don't want someone telling me about a new product they have, nor is fund selection really of interest. I can buy funds myself and that's not a huge value-add for me – talking above the noise is. If you read all the press you'd go crazy. I want to be able to talk to someone who is very knowledgeable on the markets, has the overview and their own strong point of view."

According to the *World Wealth Report 2015* - Capgemini/RBC Wealth Management, equity allocation crept up globally in 2015, drawing ahead of cash as HNW investors' dominant asset class (26.8% and 25.6% respectively). Allocations to equities were significantly higher in the US than in Asia-Pacific (33.9% versus 26.3%) while allocations to real estate were almost half as large (12.3% versus 21.4%).

It is significant that 14% of respondents in our study placed real estate in their top-three products, and may be taken as an indication of regional tastes. Certainly, several of the panellists – and clients – did point to a real predilection for real estate investment in both Hong Kong and Singapore.

Indeed, another Singaporean client observed:

"When people think about investing for the long term here, it's all about condos and other properties – that's the default long-term investment, far more than equities I would say. They would look askance if you said, 'You should sell two of your properties and exchange them for a nice balanced portfolio'."

DISCRETIONARY ACCEPTANCE: A "CHICKEN-AND-EGG SITUATION"

EAMs' focus on discretionary portfolio management is as to be expected given the trusted advisor role they tend to hold. However, this should not imply that relinquishing control of investment decisions is not still something of a leap for many clients in Asia.

As the figures on p35 show, European investors' tendency towards discretionary wealth management arrangements is reversed generally in Asia – even in its most mature wealth management markets. The fact that the EAM model tends to focus on discretionary relationships therefore creates a real need for education and promotion among clients. "The penetration of discretionary in Asia is very low, probably between 5-10% for banks generally," said Urs Brutsch, noting however that some EAMs may be 75-80% discretionary where client acceptance is high and the business model is orientated that way.

FIGURE 10

What is the most important element of the proposition you offer end-clients as an EAM?

Steve Davies, who founded his EAM in the early noughties right at the start of the sector's genesis in Singapore, certainly still sees a need to convince clients of the benefits of discretionary investment management via an EAM. Growing provision and growing acceptance will feed off each other, in his view. "The discretionary model has not really taken off yet, even here in Singapore, but that's partly because nobody's really been offering it and partly because clients haven't really been educated as to how it works," he said. "It's a 'chicken-and-egg' situation."

Davies has found that clients in Asia respond well to the message that a discretionary arrangement could boost returns. "As we gradually convert our clients' portfolios to discretionary models we find they're actually quite receptive, once you explain the difference and point out that being able to move more quickly does actually have positive performance implications," he continued.

Clients perhaps slightly out of their comfort zone with discretionary permissions may have heightened concerns about risk, but as Davies points out, the EAM model can provide its own reassurances here. "From our perspective the 'sell' is that we'd never recommend anything to a client that we don't invest in ourselves," he said. "Therefore, from that perspective, clients have a fairly high degree of comfort that there's an element of risk-sharing in terms of the products that we recommend and in the transparency we require."

INVESTMENT EXPERTISE – EAMS' USP

As Figure 10 shows, the majority (35%) of EAMs in Asia see their investment expertise as the most important part of their proposition, with this significantly ahead of providing a long-lasting relationship and trust (26%).

Asian EAMs appear to be putting far greater emphasis on investment prowess than the industry at large. Recent *WealthBriefing* research indicates that over half of wealth managers globally (52%) believe that relationship and quality service is where their firm provides *most* value for clients[7].

Clearly, investment expertise may take slight precedence but this naturally will not be at the expense of the trusted advisor relationship at the heart of the EAM model.

Summing up the offering, one respondent said: "What we offer is a combination of a long-lasting relationship, really honest advice, deep investment expertise and tight risk management. It's a tailor-made service."

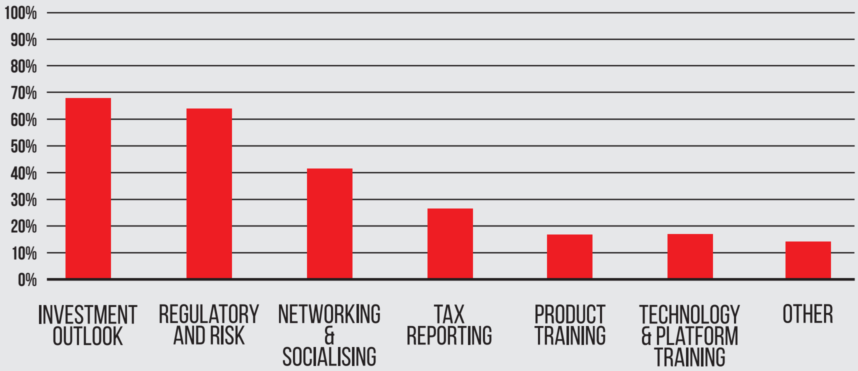
EAMS KEEN TO DEEPEN INVESTMENT EXPERTISE EVEN FURTHER

There is an obvious need for institutions in Asia to cover a very wide range of asset classes – if only as part of giving holistic advice, if not to offer them specifically. While EAMs rate their own investment expertise as highly as we would expect, it seems they are very keen to deepen this further. As we see from Figure 11 (p17), investment outlooks are by far the most appreciated thought-leadership effort that custodian banks can make.

INVESTMENT OUTLOOKS AND COMPLIANCE GUIDANCE MOST VALUED BY EAMS

FIGURE 11

Which type of thought-leadership events, if offered by custodian banks, would you find most useful?

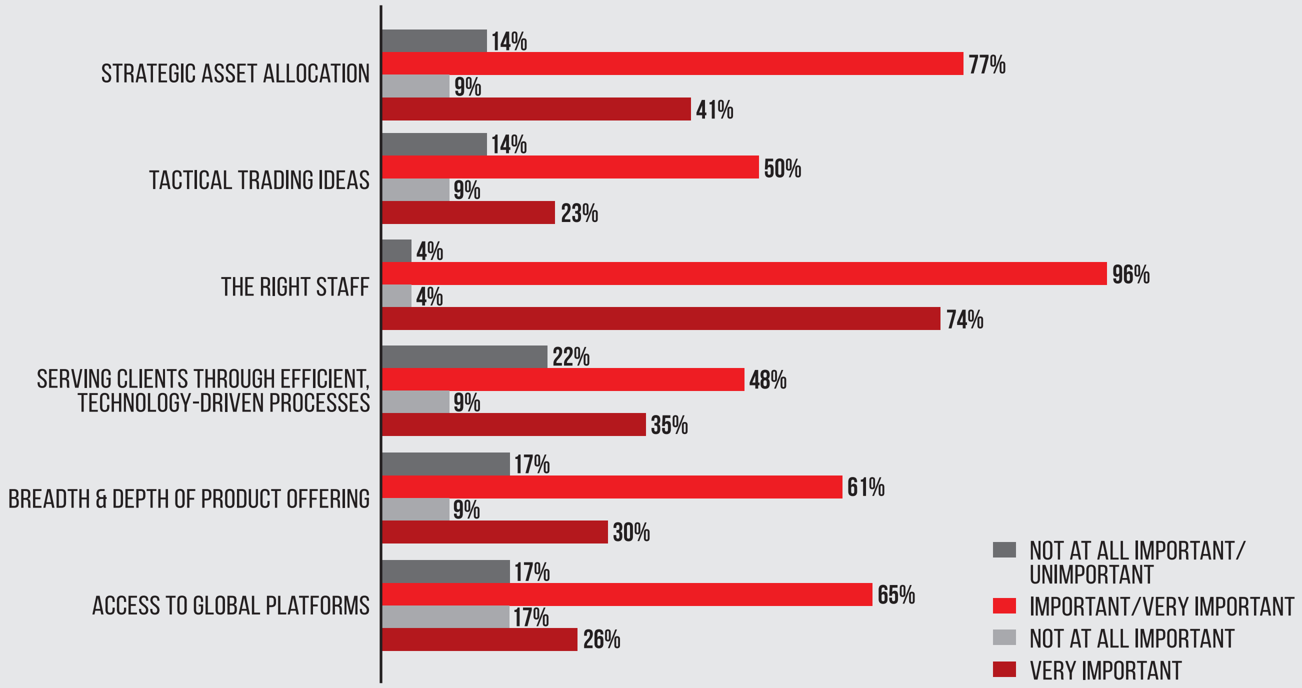


"WHAT WE OFFER IS A COMBINATION OF A LONG-LASTING RELATIONSHIP, REALLY HONEST ADVICE, DEEP INVESTMENT EXPERTISE AND TIGHT RISK MANAGEMENT. IT'S A TAILOR-MADE SERVICE ."

STRATEGIC ASSET ALLOCATION *THE* DRIVER OF SUCCESS

FIGURE 12

How important are the following factors in driving your success as an EAM?



Securing the right staff was marked out by EAMs as the most important determiner of their future success by a wide margin: an overwhelming 96% see this as isee this as either important or very important - notably, almost three-quarters see this as very important.

As the panel observed, since EAMs are often small organisations, any "weak links" in the team are naturally to be avoided. While a fifth of the EAMs included in this study have over 20 employees, almost half have fewer than 10 members of staff.

It was also highlighted that the lower profile that EAMs may (although do not always) have could prove a particular recruitment issue for emerging players seeking to grow beyond their founding core team. When it comes to building their CVs, relationship managers in Asia can be just as brand-conscious as clients, it was said. Aside from having the right staff, strategic asset allocation is regarded as a key success factor by over three-quarters of participants. This clearly aligns with the absolute importance accorded to investment expertise, as well as EAMs' common role as the orchestrator of a number of specialist investment managers.

EAMs' focus on breadth of investment offering was also in evidence again here: several respondents specifically cited having the time and skill to source more esoteric opportunities like sustainable investments as a key driver of success.

EAMS INCREASINGLY "PUTTING THEIR MONEY WHERE THEIR MOUTH IS"

As Figure 13 illustrates, currently, fees for asset management and advisory services are a very important part of the revenue mix for EAMs in Asia (although the possibility of sampling bias should be observed). Here again, while the panel conceded that education may be required, they noted that fee-based advisory services can rapidly gain acceptance.

For Jason Lai: "It may be a bit of a misconception in Asian wealth management that clients are less willing to pay fees" – arguing that if EAMs can deliver the value they promise, clients are willing to pay for it. "We see the industry moving steadily from commission-based fees to a fixed fee model as more clients become more receptive and benefit from the true alignment of interests in a fixed fee model," he said. "That said, it is a long educational process; though we had no clients on the fixed fee model when we first started, we invested time and resources to educate our clients and have found success. Today, over half of our revenue comes from fixed fees."

Meanwhile, revenue from brokerage and commissions forms a large percentage of fees for EAMs in the region at 46%, and trail commissions from funds are a key part of the revenue mix for one in seven of the respondents, both now and projected 2-3 years' hence.

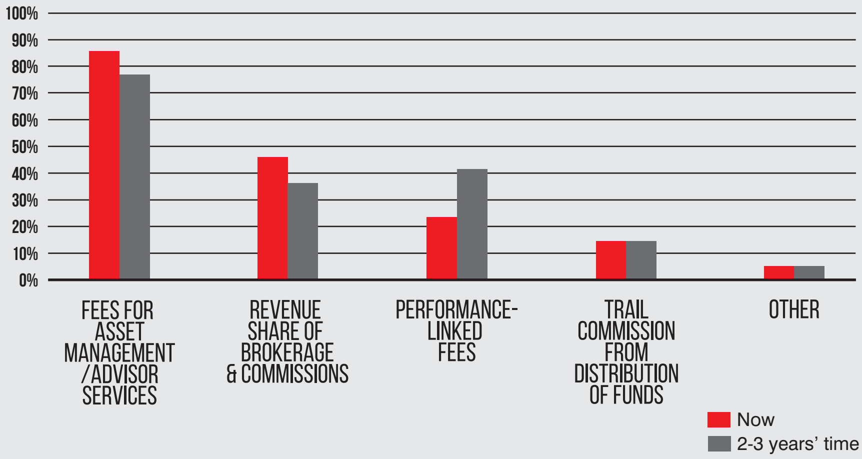
While Western regulators, led by the UK, have been trying to shift the industry away from commissions, it should be noted that in Asia they remain far more accepted and embedded culturally. Indeed, many argue that commissions/spreads (per transaction) are generally preferred by clients to upfront/fixed (management) fees.

Furthermore, while retrocessions may remain a significant part of the Asian wealth management landscape, it would be erroneous to take this as a sign of their regulators being behind the curve. In fact, clients in Asia's leading hubs may arguably be more empowered than elsewhere. As Mike Imam pointed out, "Hong Kong has had full transparency with regards to revenues earned by the firm for a long time".

"An SFC-regulated entity, which basically all of the EAMs in Hong Kong are, is obliged by

FIGURE 13

What are the two most important elements of your revenue mix, and what are your expectations for 2-3 years' time?



the ordinance to at least once a year transparently report to its clients how much they are earning on that particular relationship, although we're being even more proactive by doing this quarterly," he explained. "If and when we do get retrocessions, rebates or trailers then that shows on the statement, and so clients always have a very clear understanding of how they pay us."

As Figure 13 shows, the EAMs included in this study expect the revenue share made up of brokerage and commissions, alongside fees for advisor services, to fall. Meanwhile, performance-linked fees are predicted to almost double in their make-up of revenue shares – entirely at the expense of asset management fees, brokerage and commissions. EAMs clearly expect to be putting far more "skin in the game" going forward.

This projected change suggests that the trend is for even greater alignment between the interests of the EAMs themselves and the client - a trend that is noted throughout this research and indeed resonates with comments from the panel.

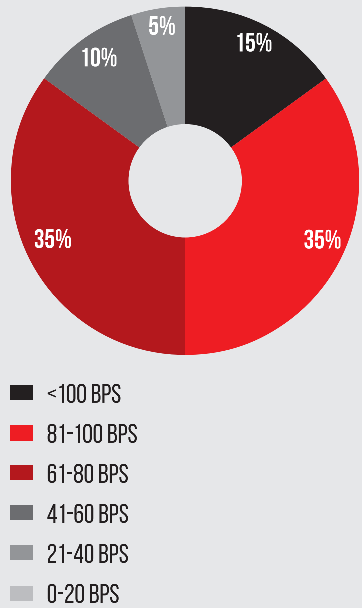
Here again there is a client education angle, along with the obvious need for EAMs to be confident of their performance. Some clients are already responding favourably to this option, but it still is very much *only* an option.

Tarek Khlat said: "We offer performance fees to clients, but we don't impose them as some clients don't really understand how that works. We say, 'If we were to achieve a certain return above X and share in that performance, our interests would be perfectly aligned'. For the ones who do understand that alignment of interests, we do it, and it works really well. Clients are happy to share the wealth."

RETURNS ON ASSETS CURRENTLY HEALTHY, BUT MAY COME UNDER PRESSURE

FIGURE 14

What is the average return on assets of your client book?



Currently, the average return on assets for EAMs in Asia seems healthy according to the respondents. Only 15% of this group reported return on assets of 60 BPS or fewer and 15% also reported a return of over 100 BPS or more, with the bulk of 70% falling into the 61-100 BPS range. This would indicate that the outlying respondents are aberrant and that the long-term sustainable level of profitability lies within 60-100 BPS range.

These findings would seem to reflect the reality on the ground. According to Reto Marx, the typical return on assets of EAMs in Asia, taking into consideration retrocessions and potentially additional fees charged to clients by EAMs directly, is roughly comparable with that of banks.

The changing mix of revenue streams as noted above though implies a closer alignment between actual performance and return on assets. With this in mind we would expect a flatter distribution curve in the future, with more managers falling short of as well as exceeding the current heavily-weighted towards the average distribution.

It will be fascinating to see how the revenue mix of EAMs in Asia evolves over time, not least because of the different types of assistance they are enabled to provide clients. Although the region's particular demographic does present challenges, there are also specific opportunities associated with it for EAMs to exploit.

"With Asian entrepreneurs, there are opportunities for wealth managers to find creative ways to monetise and create liquidity from their illiquid assets and also diversify their portfolio. We're observing a marked change in the openness towards outsourcing some of their portfolio management, and an increasing appetite for discretionary services, ranging from real estate and private equity to hedge funds," said Jason Lai. "There are also vast opportunities for succession planning as, increasingly, UHNW clients in Asia look to ensure a smooth transition of their wealth and businesses for successive generations."

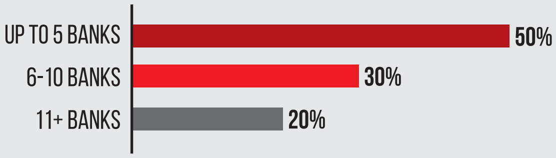
"Though some are still hesitant to bring in external advisors to formalise successions, whether through a contract or lasting structures such as a trust or foundation, the concept is gaining ground," Lai continued. "Wealth advisors need to educate their clients on the need for adequate planning to preserve and pass on their wealth. For independent advisors, opportunities lie in finding cost-efficient solutions through their open architecture platform and network of trust and estate companies."

"WEALTH ADVISORS NEED TO EDUCATE THEIR CLIENTS ON THE NEED FOR ADEQUATE PLANNING TO PRESERVE AND PASS ON THEIR WEALTH. FOR INDEPENDENT ADVISORS, OPPORTUNITIES LIE IN FINDING COST-EFFICIENT SOLUTIONS THROUGH THEIR OPEN ARCHITECTURE PLATFORM AND NETWORK OF TRUST AND ESTATE COMPANIES."

SECTION FOUR

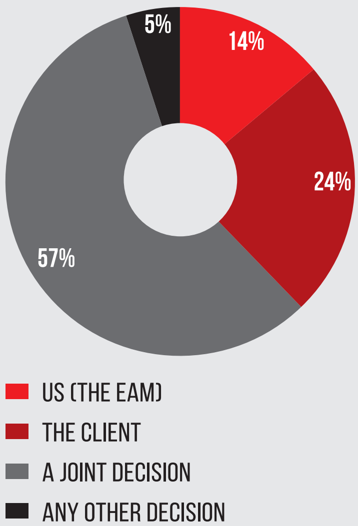
EXAMINING THE COLLABORATION BETWEEN CUSTODIAN BANKS AND EAMS IN ASIA

FIGURE 15
How many custodian banks do you offer to your clients?



CHOOSING CUSTODIANS: ONLY A QUARTER OF CLIENTS MAKE THE CALL FOR THEMSELVES

FIGURE 17
At your institution, who selects the client's custodian?



PREVAILING CUSTODY OFFERINGS

As Figure 15 shows, there is significant diversity in the number of custodian banks Asian EAMs are offering to their clients. While 50% offer up to five custodians, a fifth of participants reported that they have clients choose from 11 or more. Offering a sufficiently wide range of custodians to clients is clearly a key concern for all EAMs, but arguably particularly so in Asia's key hubs due to the diversity of the investor base.

"Having a good choice of custodians is essential for the client because each one differs in their demands. While some are geared more towards trust, other people can be heavily involved in high-frequency trading, so they're looking for something with a low cost," said Eugene Lee. "Others tend to like to borrow a lot of money, so then you're looking at the custodian's balance sheet."

The diversity of clients' preferences and requirements aligns with our findings regarding the proportion of assets under management EAMs currently hold at their main custodian bank.

As Figure 16 shows, over half of respondents book 21-40% of their total AuM with their main custodian. Meanwhile, a quarter of EAMs reported placing less than 20% of assets with their "main" custodian – a figure which arguably may negate the notion of this being a primary relationship at all.

SIMILARITIES TO SWITZERLAND

Comparing custodian arrangements between Switzerland and Asia yields a very similar picture. Previous *WealthBriefing* research has indicated that 48% of Swiss EAMs offer clients a choice of two to five custodian banks, while 23% offer six to ten and 17% offer 11 or more[8].

However, our latest Swiss research suggested that (increasing) minimum asset thresholds may have been limiting some EAMs' choice of custodian, since 28% reported managing less than SFr100m (US$101m) in assets. In Asia, as in Switzerland, smaller EAMs may lack the critical mass to offer as many custodians as they would like – particularly if, as they have in the Alpine state, thresholds rise as banks seek to protect their own profitability by maintaining scale.

FIGURE 16
What percentage of your total AuM is booked with your main custodian bank?

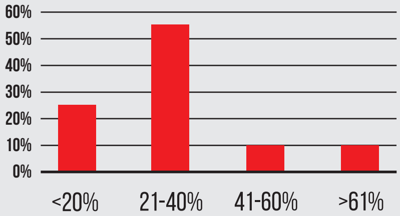


Figure 17 shows very clearly that custodian selection is highly client-centric, with investors being part of the decision-making process in over 80% of cases and only 14% of EAMs taking that decision solely upon themselves.

Anthonia Hui's view is that, "If you are a true independent asset manager you certainly won't dictate which custodian platform your client should choose". The "ideal" client will be open-minded, but there are often cases where their chosen custodian may not necessarily be the optimal choice, but is preferred by the client for non-pragmatic reasons – such as the institution being where their family has banked for generations. Here she believes that it is unhelpful to try to force clients out of their comfort zone.

Instead, she advises EAMs let clients be the judge based on a like-for-like comparison: "You would tell the client that if you want to operate in certain investment activities, there are pros and cons to each of these custodian banks they have chosen to stay with," she said. "You present what they will and will not be able to do, so that they can settle any possible deficiency in their mind and choose to live with it."

While 24% of respondents give the choice of custodian entirely over to the investor, several interviewees observed that clients with a strong preference are often coming to the EAM with their own bank platform already in place, rather than seeking to build a wealth management package from scratch. Others, however, did report undecided clients asking the EAM to prepare a "beauty parade" of a handful of possible providers for them to then choose from.

STRIKING THE RIGHT BALANCE

These proceedings are exactly what one would expect, given the importance of trust and independently selecting best-of-breed solutions to the EAM proposition. However, as the panellists pointed out, a balance needs to be struck between offering a wide enough range of custodians to give clients the requisite level of choice and keeping the number of relationships economically viable and manageable in practical terms.

Whatever their eventual number of partners, it seems clear that most EAMs will include a core of the "go-to" platforms in their locations - and internationally if clients wish to book assets out of the region.

It can also be inferred that - in markets where the EAM concept is still gaining traction - independent advisors attempting to attract newcomers can usefully associate with well-respected banking names to lend further polish to their offerings.

"People across Asia, Hong Kong specifically, like brands; however we represent an interesting option for a growing number of families looking for service beyond brand. Having the time to listen and understand issues, while having the knowledge and experience to deal with them is key to our offering," said Philippe Legrand.

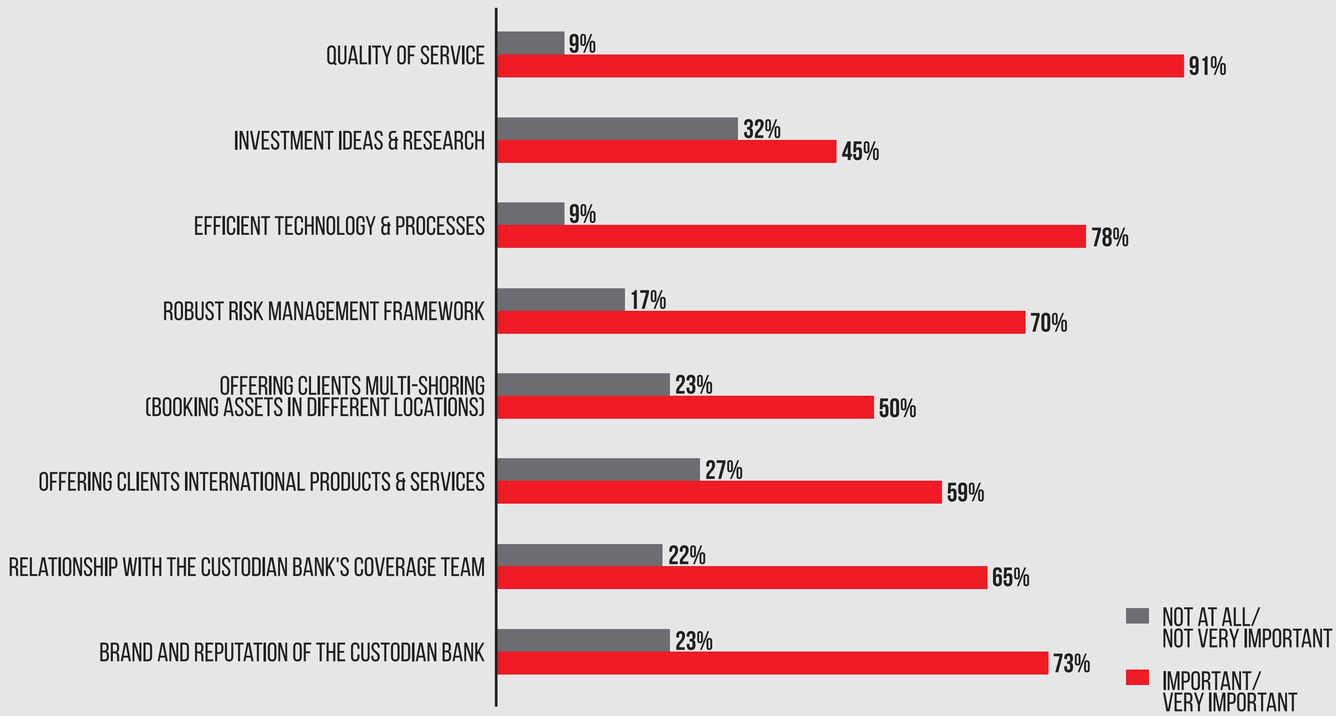
Tarek Khlat, whose own firm works with 12 custodians around the world, agreed that comfort is a big factor; clients will very often be swayed by brand, all else being (mostly) equal. "I think brand is important, or at least some *recognition* of the brand. The bank doesn't have to be the biggest or the best - not that there necessarily is a 'best'," he said. "But the client needs to have heard of them, understand who they are and know that it's a safe brand."

As the experts observed, concerns over pricing scarcely register in comparison to safety of assets in clients' minds, although it is still an important consideration amid heightened transparency and competition.

When it comes to EAMs' own choice of custodian, by far the most important selection criterion in their minds is quality of service, with nine in ten deeming this important or very important. Next was the bank having efficient technology and processes (78%), and then the brand and reputation of the bank (73%).

"PEOPLE ACROSS ASIA, HONG KONG SPECIFICALLY, LIKE BRANDS; HOWEVER WE REPRESENT AN INTERESTING OPTION FOR A GROWING NUMBER OF FAMILIES LOOKING FOR SERVICE BEYOND BRAND."

FIGURE 18
How important are the following criteria in selecting your top custodian bank?



Since EAMs have enough work to do in making other stakeholders understand their model, it follows that they are likely to prefer custodians that are very experienced in dealing with them. As evidence of their commitment, a bank where there is a specific set-up for EAMs is usually to be preferred. "Some will say 'this arm is covering you' but we tend to like to work with private banks that actually have a dedicated EAM desk," said Eugene Lee. In his view, keeping the boundaries clear removes conflicts of interest and is the key to solid EAM relationships.

"To their credit, private banks have been swift to set up dedicated desks to service EAMs, recognising the importance of the fast-expanding EAM industry," said Jason Lai. "How well a custodian fares, in my view, depends on various elements – its digital tools and platform; quality of sales and execution support, product range and innovation, and flexibility in pricing models."

The fact that technology and processes are held slightly more important than reputation and brand aligns with the fact that EAMs don't seem to put much store in their own technology offerings being a selling point to clients. As Figure 12 (p17) shows, it is one of the least important differentiators in EAMs' minds and we may surmise that they are often looking to custodian banks for significant support here.

INVESTMENT RANGE AND RESEARCH ARE ACTUALLY LOWER PRIORITIES

Looking to the least important selection criteria when EAMs are assessing custodians, we see that 27% of respondents pay little attention to international products and service offerings, and that almost a third (32%) say the bank's investment ideas and research aren't really a factor either.

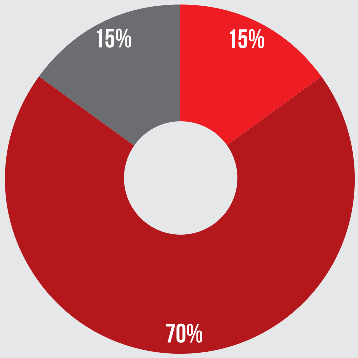
Again, this is entirely in keeping with the fact that EAMs largely sell themselves on independently exercising deep investment expertise to choose solutions without consideration of in-house products or views.

Indeed, over a third of respondents in this study see the investment advice they give as the most important part of their proposition (Figure 10, p16).

PAIN POINTS WHEN WORKING WITH CUSTODIANS

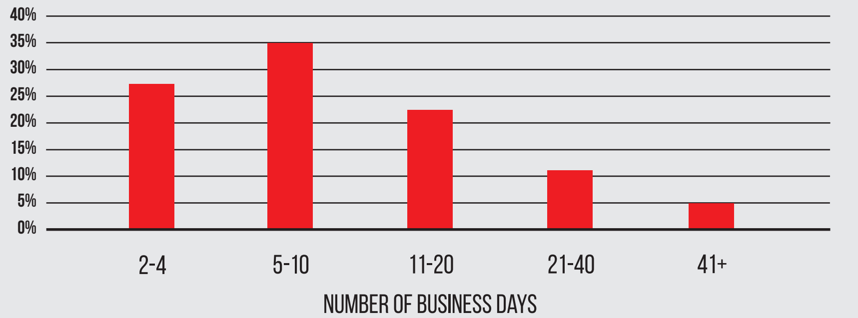
Looking to where difficulties lie when custodians and EAMs partner as per Figure 19, we see that client onboarding is as big an issue here as it is across the whole wealth management industry internationally.

FIGURE 20
How digitalised are your firm's client onboarding processes?



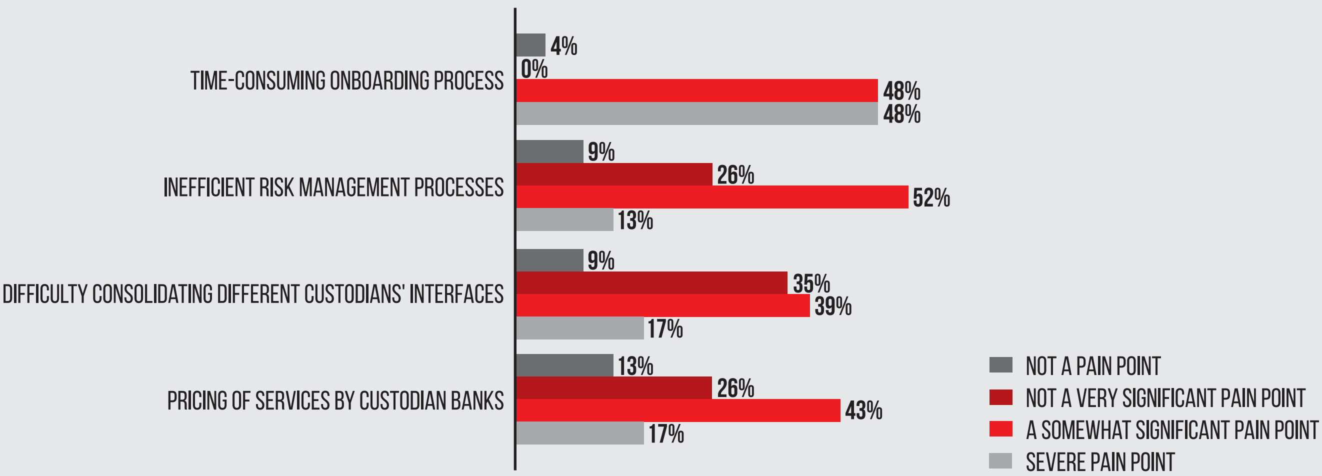
(Source: *Evolving Operating Models in Wealth Management*)

FIGURE 21
Average client onboarding times



(Source: *Converting Compliance Challenges into Business Benefits: Optimising Client Onboarding in Wealth Management*)

FIGURE 19
What are the biggest pain points you experience when dealing with custodian banks?



An overwhelming 96% of participants said that onboarding clients was a significant or very significant pain point, which is unsurprising given the lengthy and onerous proceedings that are all too often in evidence generally.

WealthBriefing research has shown that very few wealth managers have fully digitalised their onboarding processes[9] and so lengthy timeframes remain prevalent: it takes 38% of institutions over 10 business days to onboard a non-complex HNW client[10].

As well as EAMs possibly being in the difficult position of explaining onboarding delays to clients, it also seems likely that EAMs will experience difficulties with their own systems exchanging information with custodians. Half of wealth managers report rock-bottom levels of automation in their take-on procedures[11] and the same proportion only have one or two systems integrated with onboarding processes internally – let alone with third parties.

On this point, one Singapore-based EAM noted the importance of custodians having sufficient compliance expertise internally to smoothly onboard and maintain what might be complex, cross-border clients - and how deleterious a lack of experience is for the EAM and underlying client otherwise. "You can end up with the bank continuously asking for documentation without stopping to think if it is actually relevant to the case," they said. "The 'can-do' attitude can also sometimes be lacking."

PRICING: IMPORTANT, BUT NOT A KEY PAIN POINT

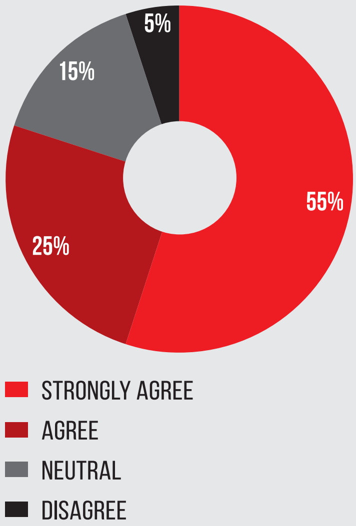
While pricing is not a huge pain point overall generally, Figure 19 (p22) highlights that it is for almost a fifth of respondents. Just as with end-clients themselves, it seems that keen pricing is top of the agenda for some EAMs. As previous *WealthBriefing* research has noted, clients are far more aware today of how much each element of their provision costs, and the impact this has on investment performance in the long term.

> "WHEN WE STARTED IN ASIA, THE TEN FOUNDING MEMBERS OF OUR ASSOCIATION RECOGNISED THAT WE HAVE A DIFFERENT KIND OF ENVIRONMENT."

PARTNERING MORE CLOSELY?

FIGURE 22

Do you agree that custodian banks and EAMs should partner more closely together to better serve end-client interests?



CLOSER COLLABORATION FAVOURED

Generally, Asian EAMs seem to be very much in favour of greater collaboration with custodians, with 80% of respondents agreeing or strongly agreeing that the two sides should partner more closely to better serve end-clients' interests. That said, there was a small contingent who believe that collaboration is already at sufficient levels.

On this point, several respondents indicated that the notion of "partnering" more closely with custodians might sit slightly uncomfortably with EAMs, given how highly they prize their independence. It was said that while the two sides do need to align to best serve clients, just how much collaboration is possible – or indeed advisable – requires debate.

As EAMs and custodian banks in Asia get more comfortable working together it may be that the possibilities of (careful) collaboration come more to the fore. In Switzerland, where independent firms are said to currently manage about a fifth of assets, our research has shown that 90% of EAMs believe their sector needs to develop joint value propositions with custodian banks[12].

Another way that banks and EAMs could usefully partner more closely is in helping both clients and regulators see more clearly how the tripartite relationship model they offer enriches the wealth management landscape.

PROMOTING EAMS

One key difference that may be seen between the EAM sector in Singapore and Hong Kong versus Switzerland is in FINMA's use of a clutch of Self-Regulatory Organisations to oversee independent institutions in the latter (at least for the present).

This has given rise to a degree of disjunction in the Swiss sector's promotion of itself, in both a marketing sense and in lobbying the regulator, it has often been said. *WealthBriefing* has previously found that an overwhelming 96% of Swiss EAMs believe their sector and its interests need to be better represented in the Swiss government[13]. In contrast, the expert contributors to this study highlighted a very much more collegial approach in Asia.

"Although I wouldn't say we've broken through just yet, the model is much better understood today and we've improved visibility and acceptance. We've been supported very well by the Association of Independent Asset Managers and it helps to lobby with the Monetary Authority of Singapore," said Urs Brutsch. "There's a constant dialogue between the Association and the MAS, which I think is very useful."

Brutsch concedes that with only around 30 members as yet, the AIAM is still very small compared to some of the self-regulatory organisations found in Switzerland. However, he believes that it is very much heading in the right direction in providing a strong voice for the sector and promoting best practice. "One of our key goals amongst ourselves is to exchange views and help each other," he said. "There's actually a very friendly ambience among us; there's no competition."

Anthonia Hui, who co-founded the AIAM in Singapore, also noted that at its genesis there was a real recognition that EAMs needed to avoid the complacency that some see as having slipped in in Switzerland.

"When we started in Asia, the ten founding members of our Association recognised that we have a different kind of environment, and in order for us to succeed we must communicate effectively to our stakeholders," she said. "That's not just clients, it's staff, potential staff, the custodian banks, the relationship managers currently holding the client, other providers and – most important of all – the regulators. We need all of them to really understand the reason for our existence and that we are there to complement, rather than compete with, the private banking industry."

It would be disingenuous to suggest that absolutely no element of possible competitive tension exists between custodian banks and EAMs. Yet the panel's remarks indicated that in Hong Kong and Singapore – as in other more mature centres – the two sides have "come to an understanding" very well. As many commentators have noted, an EAM-client relationship is often based on a personal tie with a trusted advisor. Nevertheless, there is an attractive and complementary business model for custodian banks to partner with these advisors to service these end-clients.

Summing up his vision for how UBS will partner with EAMs as the sector evolves across Asia-Pacific, Stefano Veri said:

"In Europe, we have seen a growing trend, particularly in the last 20 years, where certain clients gravitate towards an independent asset manager able to manage their relationships across institutions. While this alternative business model is still relatively new in Asia-Pacific, it is quite standard and accepted in the West as sub-set of the wealth management industry.

"In order to capture the potential associated with this pocket of our industry, UBS Wealth Management has developed a dedicated segment particularly oriented towards serving the platform, custody, and even investment needs of EAMs and their clients. This alternative business model has proven to be very complementary to our traditional end-client business and continues to sustainably contribute to the group's profitability and AuM evolution.

"Collaboration with my peers in the end-client business is strong and together we continue to grow the wealth management bottom line by effectively tackling all client segments through different coverage models.

"My vision for Asia is to replicate this model. By pairing the experience and knowledge stemming from our European business with investments in local experienced people and the continued development of an EAM-specific offering, we are in a very strong position to be independent asset managers' provider of choice in Asia-Pacific. Particularly, in light of the expected growth in the Asia-Pacific EAM segment of our industry, I am confident we have the right ingredients for a success story."

The growth of EAMs forms part of a wider flourishing of the wealth management ecosystem in Asia that, as will be seen, extends to fund houses among several other types of provider geared towards the high and ultra high net worth segments.

"BY PAIRING THE EXPERIENCE AND KNOWLEDGE STEMMING FROM OUR EUROPEAN BUSINESS WITH INVESTMENTS IN LOCAL EXPERIENCED PEOPLE AND THE CONTINUED DEVELOPMENT OF AN EAM-SPECIFIC OFFERING, WE ARE IN A VERY STRONG POSITION TO BE INDEPENDENT ASSET MANAGERS' PROVIDER OF CHOICE IN ASIA-PACIFIC."

IN FOCUS:
UHNW CHINESE LOOK TO OFFSHORE FUNDS FOR WEALTH PRESERVATION

EAMs hold out tailor-made investment solutions as a big USP. One trend that will be on the radar of those serving the Chinese UHNW segment is growing interest in offshore fund vehicles as wealth preservation moves higher up the agenda.

Here, Mark Hedderman, CEO, and Tony Kan, Managing Director (Hong Kong), of Custom House Global Fund Services, explain how the funds sector is rapidly evolving in response.

One of the more interesting aspects of being part of a global business is the opportunity to see macroeconomic trends emerge and witness how they are shaped by the social and cultural values that drive them. Today, one of the most significant of these is the flow of domestic Chinese wealth to offshore investment structures. The technical fundamentals of this alone are worth consideration, but the real intrigue lies in the desire for a reflection of the same cultural principles that govern the domestic business environment.

There has been a massive amount of wealth generated in China over recent years on the back of an economy that has seen unprecedented growth. There is a desire to preserve that wealth by diversifying into global investment opportunities and escape the concerns of future lower domestic growth and potential currency devaluation. UHNW individuals are seeking opportunities to de-risk their portfolios, create succession planning solutions and participate in more regulated and global markets.

There is concern and uncertainty around traditional asset classes, such as Chinese A shares, and a potential insurance against this is to gain access to a wider choice of opportunities via the global markets - and specifically via offshore investment vehicles. As a result, we have seen a significant increase in the number of family offices created to facilitate these demands. A concomitant growth in the use of advisors more in the Swiss EAM mould might also be expected for those not quite at family office levels of wealth.

CHINESE FAMILY OFFICES

In many cases, Chinese family offices are the offshoots of large-scale domestic institutions that have specifically been set up to provide access to offshore vehicles for their UHNW clients. The individuals are (fairly frequently) large industrial tycoons who have amassed assets at home over the past 15 to 25 years. They then come to the point of seeking alternative solutions to preserve and increase that wealth.

The proximity of an established location like Hong Kong and its return to Chinese governance in 1997 was one of the catalysts for the progression towards the situation that we have today. Right on the Chinese doorstep was the ability to gain immediate access to a financial services centre perfectly suited to meet the demands of those who wished to venture into the global financial markets. Since then, there has been a decentralisation of this activity to locations such as Shanghai and Shenzhen, which are increasing their sophistication and act as regional gateways from mainland China to the offshore world.

Therefore, the perfect environment was created for what we have seen evolve today.

DON'T UNDERESTIMATE CULTURAL DIFFERENCES

This evolution of wealth generation and protection is something that we have seen before around the world, but what is unique in this situation is how the values of the Chinese culture are impacting on the provision of services to this traditionally Western offshore investment model. What we are seeing is the collision of two worlds that have arrived at this point from very different backgrounds.

Offshore jurisdictions such as the Cayman Islands offer established vehicles that have been used by Europe and the West for some time now. However, for a lot of Chinese firms and fund managers, this is their first foray into the offshore world. In many cases, these managers may be spinning out from large local institutions, either in total or as part of a family office, as mentioned previously. As with many features of this trend, this has resonance with how the market operates outside of China. Yet, while the emerging manager in the US or Europe will typically be familiar with how the offshore world operates and functions, it is not necessarily the case with their Chinese equivalent.

This presents a unique challenge *and* opportunity for all players. There is a need to bridge the gap between the emerging Chinese asset manager's desire to embrace the offshore world and their relevant inexperience. It is here where the differences between the cultural nuances and how they relate to the market environment are at their sharpest. The service provider industry for the offshore world is a mature one that has been subject to decades of transformation and development. It is highly competitive and the differentiation between the participants can be hard to appreciate for those unfamiliar with the market.

There is a long list of firms who have failed to "crack" the Asian market, with a failure to appreciate local custom and business decorum cited typically to blame. Many have found to their cost that business etiquette is not universally transferrable.

AN EDUCATIVE ROLE

We have an emerging market that is driven by a traditional economy which has experienced rapid growth in recent times, and is at the point of its development where it evolves to the offshore vehicle. This market itself is a highly competitive and developed one, but it has to show patience and understanding to its newest participants.

Those entering the fray to provide external asset managers with the sophisticated investment tools they increasingly require need to remember that culturally a collaborative approach works well. Yet, always remember the education piece must be carefully calibrated to occur in a certain manner and at a certain pace.

Our 15 years of experience has taught us that in China, the decision-making process is longer, personal integrity is everything and respect between parties is paramount. The familiarisation that exists in a mature market - which allows for the rapid arrival at decision-making - just isn't there.

We see the evolution of Chinese offshore fund vehicles rapidly accelerating in the next few years as demand from Asian clients grows. As it does, one of our key aims is to help bridge the gap in understanding between the offshore world and the experience to date of the EAM in China. Better enabling advisors to articulate the offshore fund proposition to their clients will be key to our sector's growth.

"OUR 15 YEARS OF EXPERIENCE HAS TAUGHT US THAT IN CHINA, THE DECISION–MAKING PROCESS IS LONGER, PERSONAL INTEGRITY IS EVERYTHING AND RESPECT BETWEEN PARTIES IS PARAMOUNT."

SECTION FIVE

A TALE OF TWO CITIES – BUT FOR HOW LONG?

ASSESSING THE MARKETS SURROUNDING ASIA'S KEY WEALTH HUBS

As the title of this report states, the EAM sector's growth story in Asia seems to be very much "a tale of two cities" for the present at least. As our rankings show, Singapore and Hong Kong are by far the region's most mature markets, meaning that not only do they attract the most wealth, but also that the client bases there are better primed to accept this model.

Yet the dominance of the region's two main hubs can surely not remain uncontested, particularly with several countries working to boost their own financial services sectors in a bid to keep more money managed onshore. Several markets are ripe for wealth management development generally and, in our assessment, could prove very interesting for EAMs in particular going forward.

Singapore and Hong Kong vie with each other for dominance in Asia, and in turn with London, New York and Switzerland internationally. Yet looking ahead, it is also instructive to look beyond assets under management alone to see how financial services professionals themselves rate financial centres internationally.

Z/Yen Group's Global Financial Centres Index encompasses the overall attractiveness of financial centres as places to live and work, as well as factors such as existing infrastructure and regulation (see Figure 23). It shows not only Hong Kong and Singapore catching up with London and New York very quickly, but also that other Asian cities are very much in the ascendant on the global stage.

"London, New York, Singapore and Hong Kong remain the four leading global financial centres, with Singapore overtaking Hong Kong to become the third-ranked centre by just two points. Tokyo, in fifth place, is now just 72 points behind London," said Mark Yeandle. "It is interesting to note that when Z/Yen started tracking the two cities, Hong Kong and Singapore were nearly 100 points behind London (on a 1,000-point scale) – the difference is now less than 50. Over time the two leading Asian centres, along with others in the region, have closed the gap considerably."

MANY ASIA-PACIFIC CENTRES IN THE ASCENDANT

FIGURE 23 - Global Financial Centres Index 2016

City		GFCI 19 Rank	GFCI 19 Rating	Change in Rank	Change in Rating
Singapore	Republic of Singapore	3	755	▲1	▲5
Hong Kong	China – Special Administrative Region	4	753	▼1	▼2
Tokyo	Japan	5	728	-	▲3
Seoul	South Korea	12	705	▼6	▼19
Shanghai	China (East)	16	693	▲5	▼5
Sydney	Australia	17	692	▼2	▼13
Shenzhen	China (Southeast)	19	688	▲4	▼6
Osaka	Japan	20	687	-	▼12
Beijing	China	23	682	▲6	▲6
Taipei	Taiwan	24	677	▲2	▼9
Melbourne	Australia	30	669	▼3	▼16
Dalian	China (Northeast)	31	668	▲10	▲8
Kuala Lumpur	Malaysia	36	649	▲9	▼7
Busan	South Korea	38	644	▼14	▼46
Mumbai	India	42	640	▲17	▲13
Bangkok	Thailand	47	633	▲1	▼18
Manila	The Philippines	55	624	-	▼7
Jakarta	Indonesia	58	621	▲15	▲11
Qingdao	China (East)	79	594	-	-

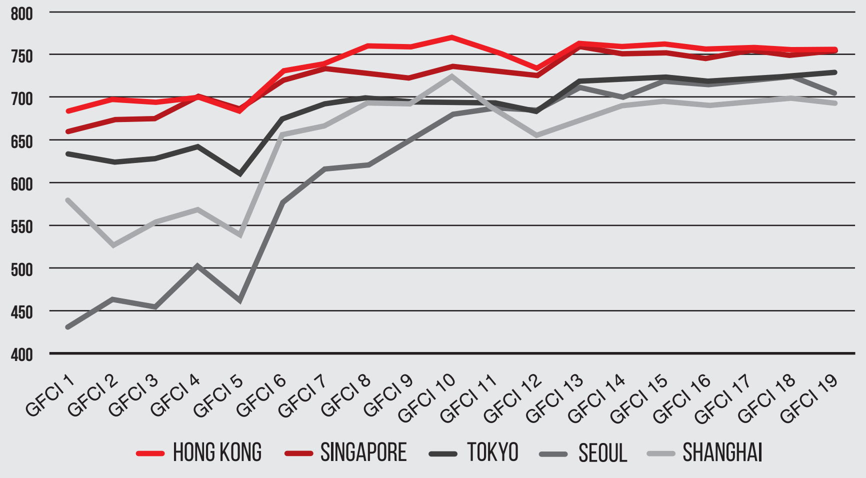
(Source: *Z/Yen Group's Global Financial Centres Index 2016)*

As Figure 23 shows, China accounts for several of the Asia-Pacific cities making it into the top 100 financial centres internationally. We also see Bangkok, Jakarta and Manila reach the top 60, and Taipei and Osaka within the top 25 as well.

If more are able to develop at a rate anywhere near that of the cities shown in Figure 24, EAMs could begin to flourish all over Asia's key wealth management centres before too long.

SINGAPORE AND HONG KONG'S PRE-EMINENCE AND THE RISE OF OTHER ASIAN CENTRES

FIGURE 24
Singapore and Hong Kong's pre-eminence and the rise of other Asian centres



(Source: *Z/Yen Group's Global Financial Centres Index – Asia-Pacific 2016)*

WEIGHING UP ASIAN WEALTH MANAGEMENT MARKETS

#1 SINGAPORE

ONE OF ITS STRONGEST ELEMENTS WAS THE PERCENTAGE OF HNWS IN THE CITY STATE: 1.96% OF ITS ENTIRE POPULATION FIT INTO THIS CATEGORY.

Although a closely-run contest, Singapore is the number one market in our proprietary rankings. It scored the highest overall across wealth management provisions, digitalisation and proportion of wealthy citizens to emerge at 8.22 against 8.18 for Hong Kong (unless otherwise stated, scores are according to our composite measures).

One of its strongest elements was the percentage of HNWs in the city state: 1.96% of its entire population fit into this category. Another is Singapore's standing as a digital powerhouse internationally: it ranked first globally in terms of its offering and also gained the highest score for its innovation in this area.

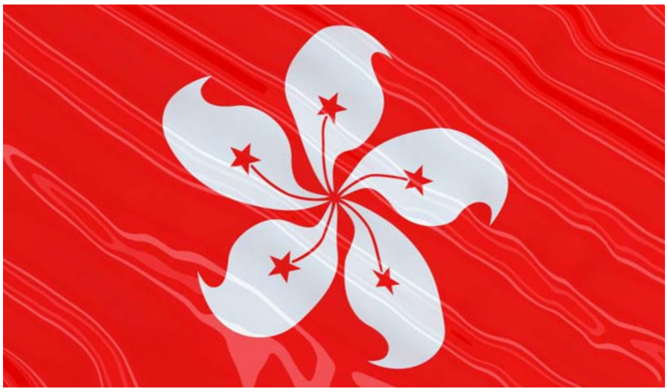
One area where Singapore seems to be faltering is in the growth of wealth. Its five-year CAGR was the lowest of all the nations in the study at 8%, with the number of HNW individuals in the city state growing at only 2.2% year-on-year. Meanwhile, levels of wealth are growing at only 3.9% year-on-year, although this may reflect its head-start after having its real boom times some years ago.

Growth has been phenomenal in the years since the financial crisis, with Asia's two key hubs benefitting from hundreds of billions of dollars of cumulative outflows coming out of other centres.

According to Deloitte's *Wealth Management Centre Ranking 2015*, client assets grew by 24% in Singapore between 2008-2014. It also stood alongside Hong Kong in being the only international wealth management centres that attracted net new assets between 2009-2014, with growth of US$40bn.

Interestingly, however, the average amount of AuM per HNW in Singapore is modest at $4.4m, putting it behind Malaysia, Hong Kong, China, Japan and even Indonesia.

#2 HONG KONG



Alongside Singapore and Malaysia, Hong Kong had a score of 10 for the maturity of its wealth market. Overall, it scored 8.18 out of a possible 10 in terms of all its rated aspects, putting it just behind its Southeast Asian rival.

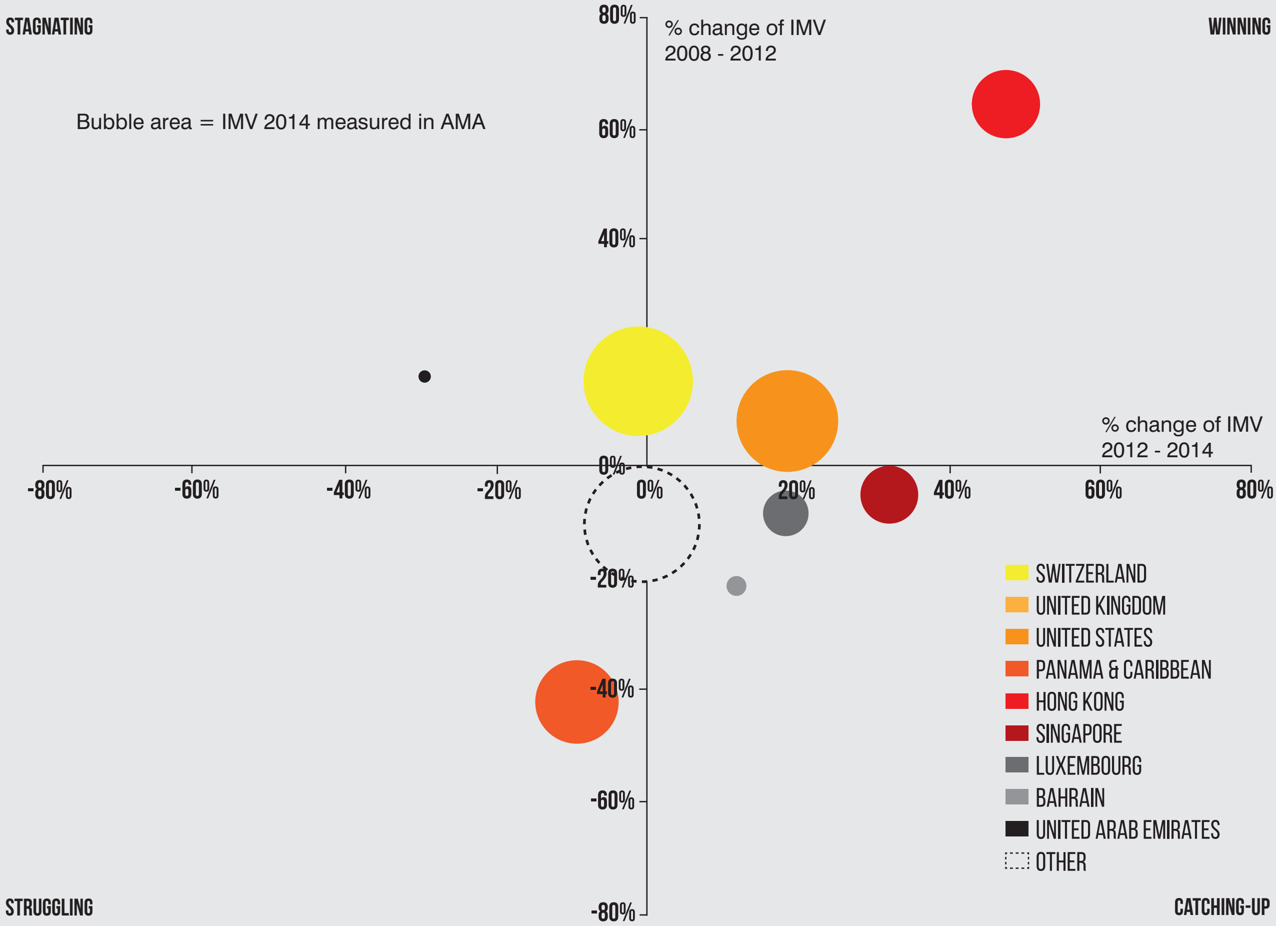
Hong Kong performed equally well on digital maturity, with a score of 5.35 - tying it again with Malaysia and behind only Singapore. Accordingly, its digital services were given the top rating and overall came third in the world.

The average HNW in Hong Kong has approximately $5.13m in investable assets, with 1.89% of the overall population falling into this category. The increase of HNWs in Hong Kong year-on-year is a modest 11.2%, with wealth on average rising by 13.1%. This puts Hong Kong on a similar footing as Thailand and Taiwan in wealth growth terms, and far surpassing Singapore on this measure.

According to Deloitte, Hong Kong's growth between 2008-2014 was stronger than in any market by some margin. It achieved growth of cross-border assets of +146% ($400bn), bringing it to fifth in the rankings and meaning that, on this measure at least, Hong Kong outstrips Singapore[14].

Hong Kong also had the highest growth rate of net new assets of any of the jurisdictions Deloitte ranked (which also included fast-growing jurisdictions such as the UAE). Compared with its international market volume in 2009, Hong Kong grew by $290m in five years – a 108% growth during this period. As Figure 25 shows, Hong Kong may be seen to be "winning" internationally.

FIGURE 25
Hong Kong "winning" on International Market Volume (IMA) by Assets under Management or Advice (AMA)



(Source: *Deloitte's Wealth Management Centre Ranking 2015)*

FIGURE 26
Overall maturity of wealth management in Asian markets

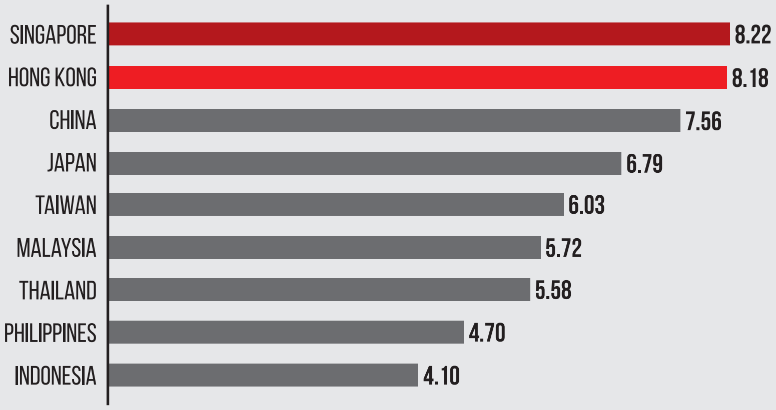


FIGURE 27
HNW density in Asian markets

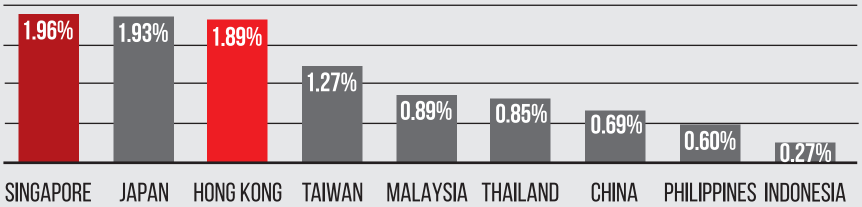


FIGURE 28
HNW population and wealth growth in Asian markets

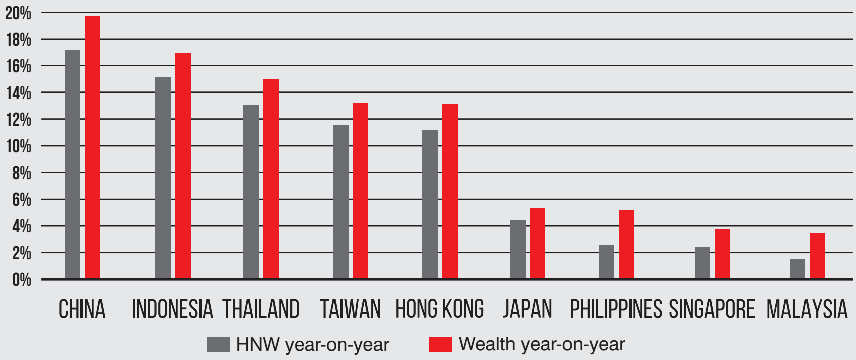
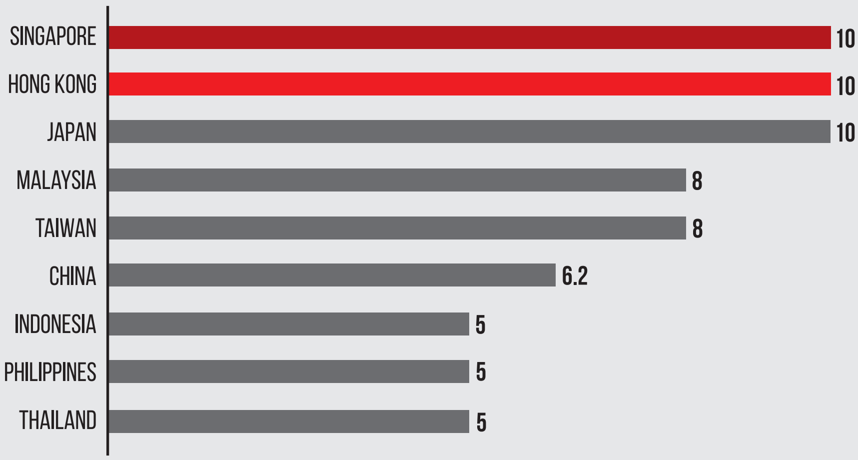
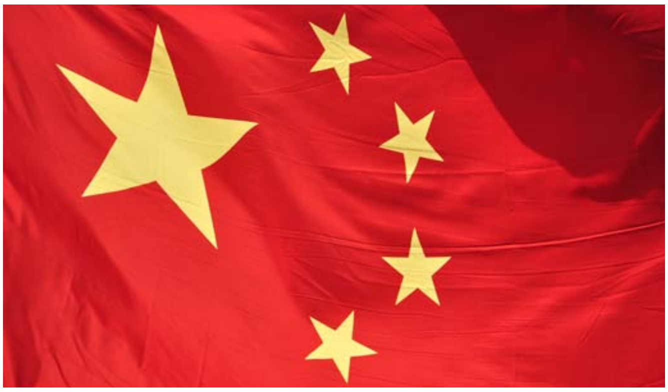


FIGURE 29
Maturity of wealth management services in Asian markets



#3 CHINA

IN ITS OVERALL SCORE ACROSS MATURITY OF WEALTH MANAGEMENT SERVICES, DIGITAL, ONSHORE/OFFSHORE PROVISION AND DENSITY OF WEALTH, CHINA SCORES 7.56 OUT OF 10.



A BREAKOUT, BUT VERY CHALLENGING MARKET

Despite boasting the world's biggest population, the wealth distribution in China has not quite risen in line with other Asian nations. According this report's analysis, only 0.69% of its population fall in to the HNW category (over US$1million in investable assets). That being said, the rise in both its number of HNW individuals and their average wealth is increasing at the fastest rate out of all of the jurisdictions under consideration (17.5% and 19.3% respectively). The average AuM of investable assets per HNW individual stands at $5.06 million. With this in mind, its provision for its wealthy has a relatively high maturity, rating at 6.2.

The digitalisation of the wealth management industry in China didn't rate as highly, however, with services here scoring 3.22, compared to 5.62 in Singapore, and even 5.35 in Taiwan. Yet, it came 29th in the world in terms of digital rankings in the research's findings.

China should be considered a "breakout" market in terms of its digital progress and forward-momentum as a wealth management market (see p29). In its overall score across maturity of wealth management services, digital, onshore/offshore provision and density of wealth, China scores 7.56 out of 10 – the third-highest of the group. China's HNW growth has resulted in a 47% increase in the amount of money flowing into Hong Kong between 2012 and 2014, while Singapore has seen a 32% rise. Jason Lai also notes that he is seeing Chinese HNW individuals entrusting an increasing percentage of their investable assets to third parties - from an average of 25% of their assets in 2009 to 65% in 2015[15].

THE HONG KONG–CHINA CORRELATION

The fortunes of the Chinese economy and wealth management market are clearly inextricably linked to those of Hong Kong (itself scoring the maximum maturity score). The downturn of China A shares and the uncertainty they represent, the devaluation of the RMB currency and lowered domestic growth expectations mean that HNW Chinese clients are increasingly looking for global investment opportunities and a higher level of protection for their assets by going offshore. As discussed overleaf, Hong Kong is the natural destination for Chinese money and institutions are proliferating in response.

To enhance the country's reputation as a well-regulated jurisdiction, the Asset Management Association of China is said to be significantly tightening up regulation to clean up non-qualified private funds and impose restrictions and higher registration requirements on onshore vehicles (transaction limitations also mean that offshore is often preferable for quant strategies). Correspondingly, growing numbers of Chinese fund houses are applying for an asset management licence in Hong Kong, also wanting clients to know they are being overseen by an internationally-recognised regulator as they set up offshore funds to serve their changing needs (see p24 for more on this).

According to the panel, offshore investment solutions represent the safety of assets and diversification today's increasingly sophisticated Chinese investors seek, and the path is already smoothed by their familiarity with regimes in far-away jurisdictions such as the Caymans. Investors are already said to be flooding to Hong Kong to buy offshore individual insurance policies. Offshore absolute return-type funds and products are set to find increasing favour with PRC money, with multi-strategy and greater diversification overtaking long-only/long-short equity strategies in popularity due to the China A share downturn.

As discussed on p24, for Chinese institutions as much as investors themselves, offshore might represent a crucial diversification play – in more ways than one.

The evolution of Chinese investors is examined in greater depth at the end of this section.

#4 JAPAN

JAPAN LOOKS LIKE AN ATTRACTIVE MARKET FOR ALL KINDS OF WEALTH MANAGERS WHEN VIEWED FROM OUTSIDE. IT IS ESTIMATED THERE ARE TWO MILLION PEOPLE WITH ASSETS OF AT LEAST $1M IN JAPAN FROM A POPULATION OF ONLY ABOUT 120 MILLION.

JAPAN: RISK AVERSION AND SERVICE EXPECTATIONS *EXCEEDINGLY* HIGH

With a maximum score of 10, the maturity of Japan's wealth management service provision stands alongside that of the region's leading international wealth hubs, Singapore and Hong Kong.

Japan is lagging a little on digital, however, scoring 4.57 against 5.62 and 5.35 respectively to rank 17th globally. To highlight one interesting nuance to this finding, Japan and Germany are said to fall behind the leading countries globally in mobile usage for financial services generally[16]. Due to the high adoption of online banking in these countries, institutions are clearly less motivated to invest in mobile solutions.

At 6.79 out of a possible 10, Japan's overall score was the fourth highest of the markets under study, but it was the only one of the markets to be rated as "stall-out".

The average AuM per HNW individual in Japan stands at $5.01m, slightly higher than in Singapore, and today 1.93% of the overall Japanese populace falls into the HNW category (similarly high figures only being seen here in Hong Kong and Singapore). Yet Japan's HNW population is growing only by 6.6%, making it the fourth slowest-growing market, behind Malaysia, the Philippines and Singapore. It has one of the lowest levels of 5-year CAGR at 8.7%; only Singapore is lower at 8.4%.

The Japanese economy has been on a unique trajectory in recent decades and while some hold that its prospects for growth are much improved under "Abenomics" – the prime minister's plan to reflate Japan's economy – its ultimate destination remains unseen. The vagaries of the Japanese economy are clearly a huge factor in demographic trends and have also fostered an investment mindset that may prove challenging for wealth managers to conquer.

"For much of the past two decades, Japanese asset prices have fallen or stagnated amid persistent deflation, while interest rates have been rooted near zero," said Lee Goggin, who worked in Japan's finance industry for many years before co-founding findaWEALTHMANAGER.com. "There's been no incentive for people to try to manage wealth through diversification." Putting this phenomenon in sharp relief, he observes that - at the last estimate - 37.1% of HNW Japanese investors' assets were in cash, more than double the level seen in the US (23.7%) and the rest of Asia (23.1%)[17].

SUPERLATIVE SERVICE STANDARDS

As someone intimate with both Japanese culture and its banking scene, Goggin is of the view that people in Japan are often suspicious of paying private banks for what they see as intangible services - it being a country where extremely high service standards are the norm. Even the typical Japanese investor's financial set-up looks markedly different, he notes. In his experience they generally operate the traditional model of using a broker for stocks, a trust bank for property, and a commercial bank for everything else.

"Japan looks like an attractive market for all kinds of wealth managers when viewed from outside. It is estimated there are two million people with assets of at least $1m in Japan from a population of only about 120 million – almost three times as many as China," he said. "However, it has a highly conservative approach to investing and exacting service culture that can make it a very difficult market for foreign institutions to crack".

As watchers of the industry will know, the big banking groups have not been immune to failure in Japan, and its regulator has fully exercised its right to expel foreign institutions for infractions. As Jessica Cutrera remarked, practical limitations, such as applying for a securities licence in Japanese, imply that barriers to entry for foreign players are very high from the start.

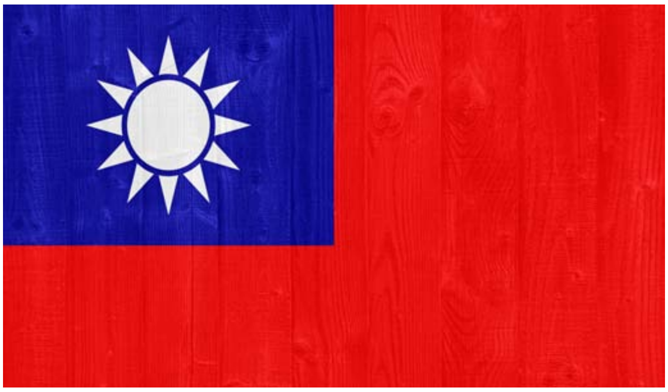
She notes an additional nuance on the investment front: "Japanese investors are historically risk-averse and nervous about markets and tend to hold more cash and Japanese Government Bonds".

However, as with other Asian countries, the growth prospects for wealth managers in Japan may be strong - if the market is approached in the correct way. Just as diversification may be a powerful message for Chinese clients, inflationary fears may be what resonates with the Japanese.

"Japanese investors may be highly conservative, but they are going to start being a lot more worried about producing investment returns that will at least keep pace with inflation," Goggin argued. In line with this view, although HNW individuals in Japan have continued to hold the largest allocations of cash (37.1%) in the world, levels have been in decline for several years. In Q1 2015, Japanese investors upped allocations to equities the most of all countries – by 5.6 percentage points to 26.3%[18].

As several panellist observed, Japan may well be a more attractive market as an offshore one. Hong Kong has historically been the go-to booking centre for the northern territories to Korea, including Japan as well as China, Legrand said.

#5 TAIWAN



THE WEALTHY MAKE UP 1.27% OF THE OVERALL TAIWANESE POPULACE AND THE HNW POPULATION IS REPORTEDLY GROWING AT JUST UNDER 12% YEAR–ON–YEAR.

A SURPRISINGLY STRONG, MATURE MARKET, BUT WITH LOW HNW WEALTH

While growth in both levels of wealth and number of HNW individuals is modest in Taiwan compared to some of the other Asian markets, it far surpasses Malaysia, Japan and the Philippines on these measures. The wealthy make up 1.27% of the overall Taiwanese populace and the HNW population is reportedly growing at just under 12% year-on-year, roughly in line with annual wealth growth of 13%. However, the average level of AuM per HNW is the lowest of all the markets under study, at just $2.4m per HNW individual.

As an upcoming wealth management market, Taiwan performs relatively impressively in a field of what might initially be considered far stronger contenders. Taiwan comes fifth in our rankings, behind Singapore, Hong Kong, China and Japan. The maturity of the Taiwanese wealth management market was equally impressive, ranking 8 out of a possible 10 and putting the country level with Malaysia.

One of Taiwan's strongest features is its digital maturity, where with a score of 5.35 Taiwan ranked joint-second with Hong Kong and only marginally behind the technology powerhouse of Singapore.

Wealth managers eying Taiwan should note the structural regulatory changes that have been implemented in the past few years to better differentiate between professional and lay investors.

Re-segmenting the market is part of moves to make Taiwan a more robustly regulated, appealing environment and therefore keep more domestic assets managed onshore[19].

#6 MALAYSIA

BY OUR ASSESSMENT, MALAYSIA HAS THE THIRD–HIGHEST DEMAND FOR WEALTH MANAGEMENT SERVICES OF ALL THE MARKETS.

DEMAND STRONG, BUT MAINLY MASS AFFLUENT?

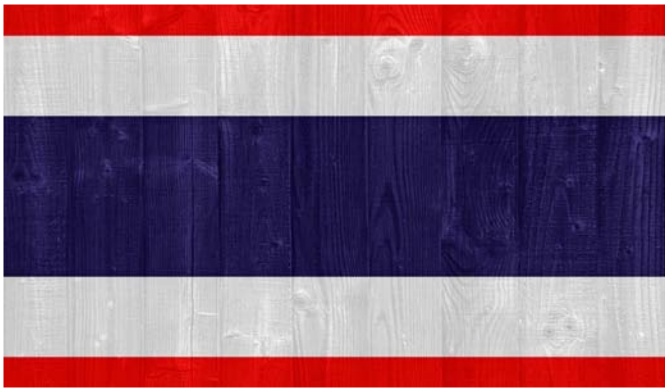
By all measures, Malaysia is the budding breakout of the wealth management hubs in Asia. It's a strong second-level competitor behind Hong Kong and Singapore, with its wealth management services maturity rating at 8 (tied with Taiwan). Although behind Japan and China also in the overall rating, scoring 5.72 put Malaysia comfortably ahead of the Philippines, Thailand and Indonesia.

However, the number of wealthy individuals in Malaysia relative to its population is comparatively small: only 0.89% of its populace are HNWs. Equally, the growth rate is also marginal, with the increase of HNWs the smallest of all markets under study at 1.7%, and year-on-year wealth increases standing at only 3.7%. Its economic growth is said to be far more evenly distributed than elsewhere, with average household incomes rising by 18% between 2012 and 2014[20].

By our assessment, Malaysia has the third-highest demand for wealth management services of all the markets. It is also performing particularly well in terms of innovation, scoring 62.1 placing it behind only Singapore and Hong Kong.

Digitally, Malaysia is in the middle rankings (23rd out of 50) but provision can be expected to evolve in tandem with the country's growth.

#7 THAILAND



THAILAND, LIKE THE PHILIPPINES, REFERS TO THE TYPE OF INDIVIDUALS WEALTH MANAGERS MIGHT TARGET AS "QUALIFIED INVESTORS", BUT HERE THE TWO REGIMES DEPART.

IMPRESSIVE HNW GROWTH FROM A VERY SMALL BASE

An average AuM per HNW individual of $3.34m puts Thailand towards the bottom of the rankings on this measure. That being said, one of Thailand's most stand-out attributes is the growth of wealth over the past few years. The rise in the number and wealth of HNWs year-on-year is third only behind China and Indonesia: the amount of HNWs is increasing by 13% year-on-year, while the average wealth is growing by an impressive 15%. However, the size of the HNW population in Thailand isn't as strong as some of the other jurisdictions listed; they only make up 0.85% of the total.

Despite a smaller base of HNW investors, Thailand ranks relatively well for the maturity of its wealth management services – it is a lack of innovative products for wealth growth said to be its shortcoming. With wealth in the country being predominantly entrepreneurial, investors tend to prefer to play it safe with basic financial products and use banks for little more than daily transactions[21]. It scored a 5, the lowest rating of the nations studied - and on par with the Philippines and Indonesia - in this respect. However, Thailand outperformed both on its digital development.

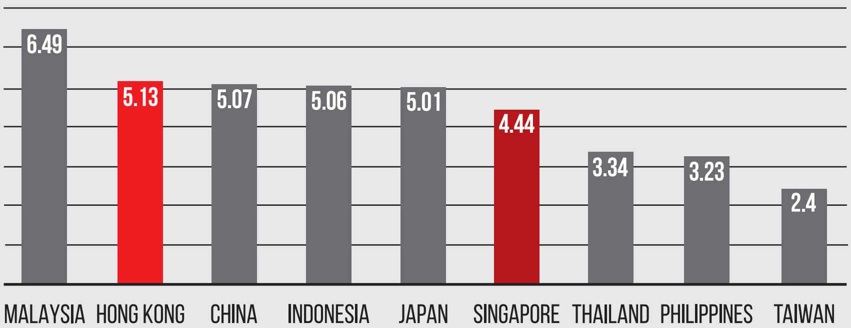
There is clearly much scope for development in Thailand, both in terms of investor education and the provision of more mature investment offerings and wealth preservation tools. Efforts to engage with investors digitally may prove more fruitful here than in other similar markets.

There are, however, regional regulatory distinctions for wealth managers to note. Thailand, like the Philippines, refers to the type of individuals wealth managers might target as "qualified investors", but here the two regimes depart. While the Thai net worth threshold is twice that of the Philippine regulator, a far broader range of qualifying characteristics may be accepted, likely creating a deeper pool of potential clients once the wealth management message gains further traction.

According to the Notification of the Capital Market Supervisory Board concerning regulations on offer for the sale of securities through electronic systems or networks, such an investor can be an ordinary person who has invested in stocks directly for at least one year and possesses either of the following: (a) having the net asset value of at least 50m baht ($1.4m), excluding real estate that they use as their permanent residence; or (b) having an annual income of at least 4m baht ($114,700). Interestingly, the calculation of the assets or income under (a) or (b) may include the assets or income of the spouse.

A qualified investor can also be a person who has knowledge and expertise in business operations or investments; has assessed the value of a business operator; or has given advice for business development for at least three years. They could be a financial advisor, analyst, business executive, director or executive responsible for the investment of institutional investors, for instance, but they must have at least 5m baht ($143,420) invested directly in stocks.

FIGURE 30
Average HNW wealth in Asian markets (in USD)



#8 PHILIPPINES

SEVERAL SUCH MOVES WHICH MAY BE VERY INTERESTING TO WEALTH MANAGERS CAME LAST YEAR, WHEN THE MINIMUM ANNUAL GROSS INCOME FOR QUALIFIED BUYERS WAS SLASHED FROM PHP25M ($532,500) TO PHP10M.

MUTED HNW GROWTH, BUT A RECENTLY-RELAXED INVESTOR REGIME

The wealth management market in the Philippines hasn't quite progressed at the same speed as some of its regional peers. In terms of overall scores it ranks only behind Indonesia (4.79), but doesn't have the same level of growth in both wealth levels and numbers of HNW individuals as the former.

The amount of HNWs in the country has been growing at a rate of 2.6% year-on-year, and the average level of wealth growing only by 4.3%. Just 0.6% of the Philippine population have over $1m in investable assets – only Indonesia has a lower level of wealthy individuals among the markets under examination. Not only this, the average AuM per HNW is significantly lower than for a lot of other nations, at only $3.23m per HNW.

Because of the strict regulation of investment products, investors to tend look offshore to grow their assets, rather than invest in the restrictive offerings on home soil. The trend may soon start to reverse, however, due to recent moves to relax the regime for HNW individuals.

The Philippines, a former colony of the US which has its own Securities and Exchange Commission, has also established the concept, followed worldwide, of a "sophisticated investor".

In 2007 the Philippines SEC issued a detailed definition of a "qualified individual buyer" as: someone who, at the time of their registration with an exchange, (a) has a minimum annual gross income of PhP10m ($212,848) for at least two years prior to registration; or a total portfolio investment in securities registered with the SEC of at least PhP10m; or a personal net worth of not less than PhP30m ($639,000); and (b) has been engaged in trading securities for a year or has held a position of responsibility at a firm that requires knowledge of securities trading. All applicants for registration as qualified buyers must prove their qualifications.

The Philippines' regulatory set-up – requiring public hearings for rule changes – generally means that these are major reforms rather than peripheral tinkering.

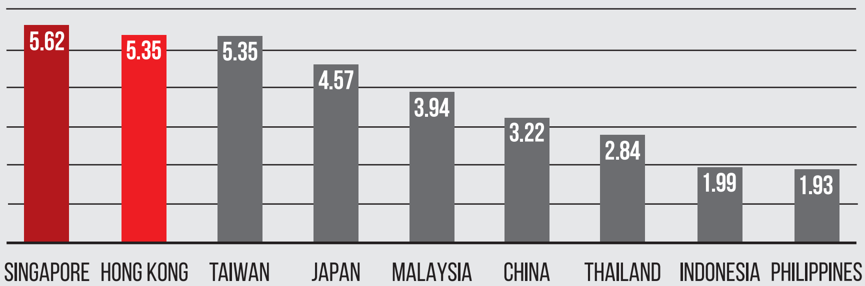
Several such moves which may be very interesting to wealth managers came last year, when the minimum annual gross income for qualified buyers was slashed from PhP25m ($532,500) to PhP10m. Additionally, investors may now prove financial capacity via any verifiable documentation, where previously income tax returns were required, and they remain registered for three years rather than two.

These reforms came at the end of a gruelling five-year consultation process, which dealt with every element of the securities market and not just qualified buyers. Their ultimate aim was to make access to capital easier for Philippine companies, illustrating once again the perpetual regulatory pendulum swing between protecting investors and promoting investment.

Wealth managers looking to leverage relaxed investor rules should note that the Philippines is currently very immature in technological terms, scoring only 1.93 (see Figure 31). That said, internet usage is reportedly high among residents of the Philippines, particularly via mobile devices - a trend which could be usefully harnessed by tech-savvy wealth managers.

FIGURE 31

Digital maturity of wealth management markets



#9 INDONESIA

INDONESIA IS ENJOYING THE STRONGEST RELATIVE LEVEL OF GROWTH IN AMOUNT OF HNWS, AS WELL AS IN THEIR WEALTH – ALBEIT FROM A LOW BASE.

THE LOWEST HNW RATIO, WITH INNOVATION SERIOUSLY LACKING

Indonesia had the lowest overall score of all the markets under examination in terms of its wealth management offering, rating only 4.1. Furthermore, while it is has the third-highest population of the markets, it has the lowest proportion of HNW individuals, at only 0.27%.

That being said, apart from China, Indonesia is enjoying the strongest relative level of growth in amount of HNWs, as well as in their wealth – albeit from a low base. The average AuM per HNW client in Indonesia stands at a modest $5.06m, similar to levels seen in China and Japan.

With the maturity of the wealth management services in the country scoring 5, Indonesia is at the bottom of the rankings alongside the Philippines and Thailand.

As with some of its peers, there seems to be a real dearth of innovation for HNW clients: here Indonesia scored lowest of the Asian markets at 33.07. Taiwan aside, all other nations scored over 50 points.

Indonesia's digitalisation levels are also on the floor, with the country ranked 46th of 50. Even the level of digital growth since 2008 has been almost lacklustre; it recorded only a 3-point increase during this time.

IN FOCUS:
CHARACTERISING THE EVOLUTION OF CHINESE CLIENTS

Dominic Gamble launched findaWEALTHMANAGER.com in the UK in 2012 - following up with sister service WEALTH in Singapore and Hong Kong in 2015 and 2016 respectively - and so has closely observed the contrasting evolution of investors regionally.

He believes the Chinese stock market's wild ride has actually provided wealth managers with an excellent platform for making their message hit home with HNW investors; those in the upper echelons of Chinese wealth, meanwhile, will be left weighing the true feasibility of establishing family offices.

True to received industry wisdom about the Far East, Gamble has observed profound differences between the behaviours and expectations of investors in the West and Asia, with the latter tending to be far more hands-on and taking a lead role in investment decisions. Strikingly, while 57% of the HNW individuals coming to the findaWEALTHMANAGER.com UK website over 2015 requested a discretionary relationship, only 25% requested the same via the WEALTH site in Singapore. Chinese investors might be expected to show a similar preference for retaining control, or even significantly higher, for better or worse.

Gamble – a former private banker – has observed that high levels of portfolio churn can often go unchecked in some Asian investment management models as a result, proving a significant drag on performance (he also often sees self-directed investors with portfolios very much misaligned with their true risk tolerance). Add in the temptation to gamble in what have been red-hot markets, and many investors will have suffered. He therefore believes the Asian HNW population is well primed to hear about the benefits of long-term investing and truly disciplined asset allocation (something he says is a "used and abused term" in the region). Investment advisors with nothing to gain from the accrual of transaction fees – like EAMs – could have a strong message to convey to Asian clients, and the Chinese in particular.

With China's huge army of retail investors having stoked the Shenzhen Index to heights as giddy as 34 times forward earnings, and with leveraged trading widespread in the country, it is apparent that a massive number will have been literally playing the markets, in Gamble's view. "With 90m share trading accounts active in China, one has to wonder just how much the average investor understands asset allocation and risk," he said.

"Wealth managers should be preaching a more hands-off, long-term strategic view, picking sectors and geographies that the investor really likes for the long term, not just today," he said. "One of the key messages we've been promoting with our investor content in Asia is that performance is about diversification and positioning for longer-term growth, rather than frequently chopping and changing investments."

THE RISK MANAGEMENT MESSAGE

Worrying as market gyrations have been, in his view they may have been beneficial to the maturation of the wealth management mindset among Chinese investors, serving as a "wake-up call" ensuring the risk management side of the story gets the attention it deserves.

"China's affluent investors need to really understand the risk they are taking for their life-stage and profile, and we have found this is usually seriously lacking in their psychology," he said. "We often find the role of a wealth manager is just as much about counselling as it is about execution and advice - and there's no doubt there is a challenge in dialling clients' return expectations down and turning the conversation round to risk management."

ACCELERATED DEVELOPMENT

Yet it is perhaps another characteristic of Chinese clients that wealth managers wishing to crack the country should have front of mind, Gamble said. As evidenced by the huge wealth thousands of entrepreneurs have amassed in stunningly short timeframes, Chinese clients learn fast.

"Despite the often-talked about gambling psychology, Chinese investors will learn very quickly the painful lessons taught by making big investment calls without the right expertise," said Gamble. "In the West, it took half a century for the HNW community to seize on the advantages of wealth management and the concept of wealth preservation. But things are so fast moving here now in Asia, you can almost see the offering - and clients - becoming more sophisticated before your eyes."

Singapore and Hong Kong are in the ascendant as international wealth management hubs and are closing the gap on the world's largest offshore financial centre, Switzerland. Boston Consulting Group has previously said it expects for the two Asia centres together to account for a fifth of offshore money by 2018, compared to Switzerland's quarter[22]. The Alpine state has notably largely retained its allure for clients internationally despite the death of banking secrecy, however, due to its abundance of expertise and providers supporting the work of wealth managers. Much of the attractiveness of any jurisdiction is driven by – and in turn drives – the evolution of all of the infrastructure supporting the work of wealth managers.

Chinese clients are certainly heeding the siren call of offshore structuring and investments to protect wealth as it passes into the next generation; the overlay of complexity the PRC's political situation represents can never be forgotten. As one panellist put it: "UHNW individuals are seeking succession planning solutions; the Chinese simply do not feel safe having all their assets within China."

As Gamble highlighted, Hong Kong's professional infrastructure makes it the natural destination for mainland Chinese setting up family offices. "This allows them to access a larger pool of international expertise and experience," said Gamble. "It also allows the family office to access more international investment opportunities because of the well-recognised Hong Kong financial system and investment vehicles." What might be described as following the maturation of the markets is, he explained, the rationale behind WEALTH's Asia rollout, which began with Singapore, followed by Hong Kong and with wider regional markets in sight such as Thailand (see p33 for more on the landscape of the latter).

THE REAL FEASIBILITY OF FAMILY OFFICES

Due to the sheer size and growth of wealth in China, Gamble predicts that the absolute number of family offices will eventually be high. However, they - and other types of small wealth manager - will face the same already well-documented challenges family offices have experienced in the past ten years in the US and UK. Critical mass is crucially important amid a rising regulatory burden and other pressures.

The viability threshold for forming a family office is often said to be US$100m in AuM. Correspondingly, Gamble argues that, "family offices are great for billionaires, but less so for even what you might call 'core' UHNW clients". Nor, arguably, does this set-up tend to work long-term without the institution itself undergoing significant evolution.

"Family offices in China, as elsewhere in Asia, will have to be particularly well-capitalised and backed by a strong client asset base; it really isn't viable for a family to set one up as a show of wealth. Expertise is already in short supply so they will need deep pockets to secure the best talent, along with the capabilities to deal with exponentially rising regulatory considerations," said Gamble.

He continued: "Towards the lower end of the wealth spectrum, a family office will need to serve several clients in order to support costs and diversify the risk of a key client departing. That then starts to look like a boutique wealth manager – or more of a Swiss-style independent wealth manager – as opposed to a family office. Indeed, that may be the way the Chinese wealth management market proliferates."

It is easy to see how, in China and elsewhere, EAMs could step in to fill the gap for those seeking a more independent advisory model, but whose wealth doesn't warrant a fully-fledged family office. Indeed, some EAMs very much act as coordinators and consultants in selecting, managing and reporting on the performance of a range of specialist investment managers for their clients (where the lines between an EAM and a multi-family office may be drawn is debateable).

Non-Western brands, and particularly lesser-known ones, should not expect easy success in China - nor indeed in any Asian market - Gamble warns. Domestic banks see their opportunity, and further competition might be coming from unexpected quarters: Asian instant messaging platforms have made inroads into financial services via money-market funds, and online commerce giant Alibaba is believed to be considering offering investment services, for instance. Brand may be very important to Asian clients, but not necessarily traditional financial ones.

Above all, he advises all those eying the Asian wealth management market to bear in mind that the fee-based, capital preservation-orientated conception of wealth management is still gaining traction. It follows that underscoring precisely where value has been delivered will be even higher on the agenda with clients in Asia. Gamble concluded:

"Wealth managers face a triple challenge, the first part being getting clients to delegate decision-making responsibility. That's often simply not in their mindset, especially given that this is predominantly first-generation wealth and they have worked very hard to get to where they are.

"Second is the move to wealth preservation mindset – which will become easier as the next generations come through. While the regional investor base tends to have a highly transactional and speculative mindset, the family office is akin to a long-term investment vehicle more like a pension fund in investment style and timeframe.

"Third is getting clients on board with paying a fixed, transparent management fee for wealth managers. The Asian wealth market is maturing and in time will evolve similarly to the Western model. But we are a few more crises, and at least a generation, away from that becoming the norm."

"WHILE THE REGIONAL INVESTOR BASE TENDS TO HAVE A HIGHLY TRANSACTIONAL AND SPECULATIVE MIND-SET, THE FAMILY OFFICE IS AKIN TO A LONG-TERM INVESTMENT VEHICLE MORE LIKE A PENSION FUND IN INVESTMENT STYLE AND TIMEFRAME."

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CONCLUSION

WealthBriefing's research covers a wide array of topics, ranging from granular examinations of technology and operations through to broader studies covering whole segments or markets. Our output is highly diverse, but all our reports may be said to be united by the theme of diversity, both inter- and intramarket. Here again, in investigating the rise of external asset managers in Asia, we have seen just how significant those nuances can be – even when comparing two centres which on the face of it might seem to be quite similar.

We have researched the independent advisory sector in Switzerland over several years, unpicking the challenges and opportunities that EAMs face in particular in private banking's heartland. Comparing the landscape of the Alpine state to that of Asia's main wealth hubs has revealed strongly both pronounced similarities and striking differences. Many of these are attributable to where each centre stands in its development as a wealth management market generally and, in turn, how entrenched the EAM model is. Other noteworthy differences are regulatory in nature, or due to cultural and demographic factors. We hope, with the insights of our expert contributors, to have usefully illuminated the most business-critical points of convergence departure for the benefit of readers.

In extending our research coverage to Asia's independent wealth management segment we aimed to provide EAMs in Asia with a useful barometer of leading practice and business sentiment among their peer group. Alongside, we wished to give valuable insights to all the other stakeholders in the EAM model of wealth management, such as custodian banks, investment product providers and other professional advisors like lawyers. As this report has discussed, the growth of EAMs is simultaneously driving, as well as being driven by, the further development of the wealth management infrastructure in Asian markets. Helping those working with EAMs better understand their strategic priorities – and key pain points - is important work.

This report was entitled "*A Tale of Two Cities (for Now)*" to acknowledge that although EAM growth in Asia may currently be centred on its two main wealth hubs, this may be subject to significant change. As we have seen, several governments have made moves to tighten up their regulatory regimes and make their own financial services centres more attractive in a bid to keep more money managed onshore. The extent to which these moves will stem the tide of money to the offshore powerhouses of the North and Southeast remains to be seen, however.

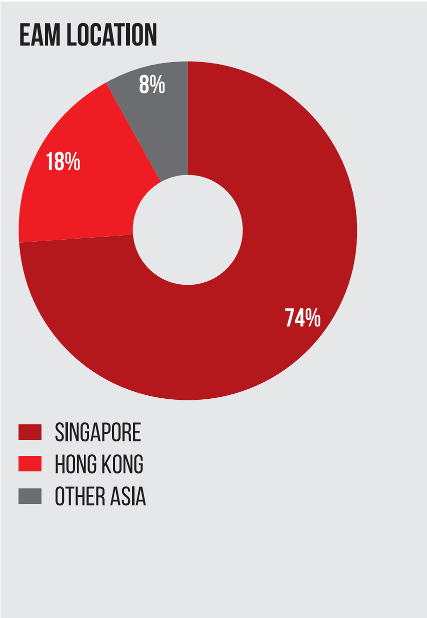
The EAMs based in Hong Kong and Singapore who were interviewed for this report are certainly very positive on the sector's prospects in their centres, with both growth in market share and new entrants predicted by most. Also foreseen are changing revenue streams, with growing emphasis on advisory and performance fees highlighted as possible key trends to watch. The needs and preferences of clients in Asia are rapidly evolving, and concepts that are very well-established in Western markets (like discretionary investment management and fee-based advice) are rapidly gaining traction. The accelerating growth of the EAM segments in both Hong Kong and Singapore is a clear sign of both coming of age, in a wealth management sense, and developing more ways for clients to get the sophistication and specialisation of services they need.

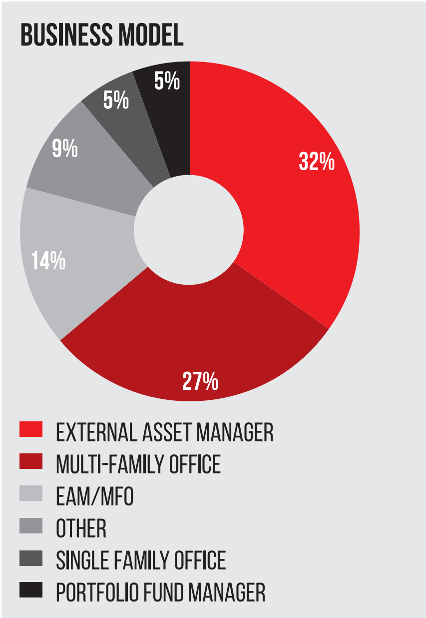
WealthBriefing and UBS would like to extend their warmest thanks to all the EAMs, senior wealth management executives and other experts who were kind enough to contribute to this report – and particularly to the HNW individuals who also gave us the client's perspective. As ever, feedback on any of the issues that emerged or ideas for further investigation would be most welcome.

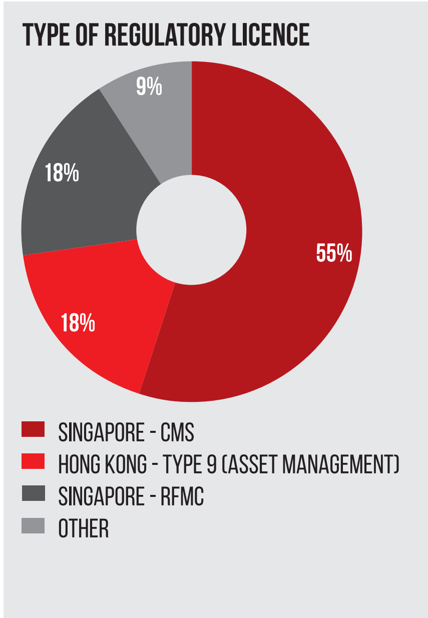
WENDY SPIRES
Head of Research
WealthBriefing

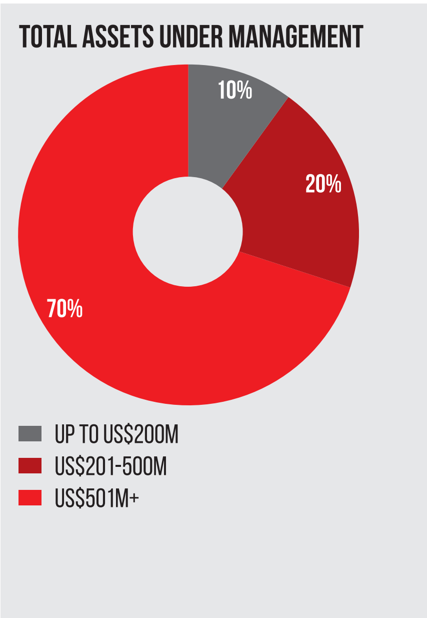
METHODOLOGY

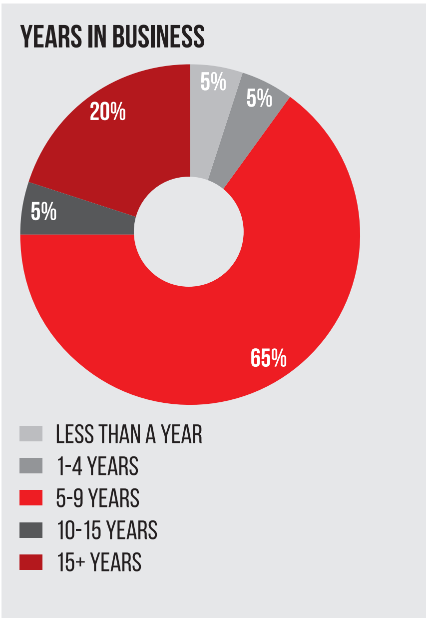
SURVEY SAMPLE:
For the quantitative elements of this study, 23 Asian EAMs were surveyed and interviewed between March and April 2016. Their characteristics were as follows:

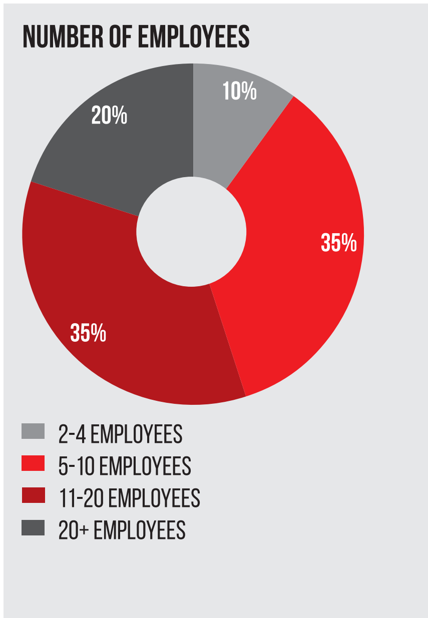












PROPRIETARY WEALTH MANAGEMENT MARKET RANKINGS:

Where not attributed to another source, the scorings and rankings referred to in this report derive from a proprietary research methodology. As part of our assessment, each market under examination was given a score encompassing variables including: its addressable HNW market; the density of that market; AuM per capita; AuM per HNW individual; the overall maturity of the wealth management sector (on measures such as number and longevity of players, and pace of new entrants); the maturity of offshore versus onshore services, and how digitalisation levels currently stand in that nation. An overall score was then arrived at for each market (the higher, the better), along with ones for individual elements of their landscape, to allow for more granular comparisons. The digital maturity of each market was determined by measures such as mobile penetration, internet coverage across the population, daily internet usage levels and average age per user (the higher this being, the more digitally developed the market).

All $ references denote US dollars, unless otherwise stated.