

Asset and Wealth Management Research Digest

PwC | AWM Asia Pacific Market Research Centre
January 2019

Executive summary

Adaptation has been the key to survival for living species. It is about understanding the changing landscape and making strategic changes to the way we operate.

In the asset and wealth management world, adaptation is about reinventing the way things are done. It is about overcoming roadblocks, expanding existing networks and finding more efficient means of doing business.

In 2018, the PwC Asia-Pacific Market Research Centre witnessed profound changes in the asset and wealth management ecosystem and more significantly, asset managers actively adapting to these shifts.

During the year, several regulators across the region introduced new rules to safeguard the interests of investors and level the playing field for asset managers, while others liberalised investment regimes to permit new products and vehicles.

On the distribution front, complex distribution dynamics continue to unravel. New platforms are peeling away the multi-layered interaction between asset managers and distributors. Digital initiatives are also enabling asset and wealth managers to widen their reach and better understand investor behaviour.

Investor behaviour, particularly among the behemoths, is also shifting. As we advance towards hyper-connectivity, there is a greater demand for more financial and information transparency and accountability.

Asset managers have not been laying idle in the face of these changes. Many are pioneering new products, penetrating new markets, while others have opted to reorganise their operations.

In the first issue of the market digest in 2019, we will begin by revisiting notable entrances and exits in the region, before zooming into four key regional trends:

- (i) diversification
- (ii) increased regulations
- (iii) digitalisation
- (iv) regionalisation

and analyse the implications of these trends on the Asia-Pacific ("APAC") region as we move into the new year.





2018 in review: Entrances and exits

Today, foreign managers are recognising that the fly-in, fly-out model is losing steam in most parts of APAC. Instead, many are ploughing resources into existing or new markets either to comply with regulatory guidelines or to exhibit market commitment with the aim of gathering more assets. Meanwhile, several foreign players have also bowed out of crowded markets.

Increased commitment and new entrances

China

Foreign players increasing stakes in JVs

2018 was an inflection point for foreign players as Chinese regulators lifted restrictions on foreign ownership, allowing foreign asset and wealth managers to take up to a 51% stake in joint ventures.

Since then, a Swiss bank has won approval to become the first foreign bank to own a controlling stake in a securities joint venture (“JV”) and at least two US-headquartered asset managers have expressed interest in increasing their stakes in existing asset management JVs.

Others are going fully independent

While some global players are after a larger stake in current JVs, others have additionally registered themselves as Wholly Foreign Owned Enterprises (“WFOEs”) and secured Private Fund Management (“PFM”) licenses – commonly referred to as Private Fund Management Wholly Foreign Owned Enterprises (“PFM WFOEs”).

For newcomers pursuing a long-term strategy in China, establishing a PFM WFOE is currently the most popular mode of entry. Starting a PFM WFOE allows managers to build up their brand and distribution network – two of the commonly cited market struggles – before venturing into the public funds space and also circumvents potential problems faced in JV operations.

Besides raising funds to invest locally, PFM WFOEs are also allowed to apply for the Qualified Domestic Limited Partnership (“QDLP”) license which permits them to raise funds domestically for offshore investments. In fact, there are a handful of foreign players who hold both PFM and QDLP licenses – the latest being a Korea-headquartered asset manager, which received its PFM approval in December 2018, in addition to a QDLP license.

Moving forward, we expect continued interest in the PFM WFOE track. However, securing the license to operate is a mere beginning. The ability to overcome hurdles such as high market turnover, a rapidly evolving regulatory environment, creating brand awareness, among others, are factors which will set successful entrants apart from others.

Figure 1: Number of new licenses awarded in China, 2018



Private fund management (PFM): allows foreign fund managers to invest in a portfolio of onshore assets and raise funds from a maximum of 200 domestic qualified investors (high net worth individuals and institutions).

6



Qualified Domestic Limited Partnership (QDLP): allows foreign managers to raise funds domestically to invest in offshore traditional and alternative investments subject to allocated quotas.

13

Source: AMAC, PwC analysis

Southeast Asia

Meanwhile, a UK life insurer appears to have set its eyes on Southeast Asia. In the Philippines where a handful of foreign asset managers rely heavily on their life insurance arm as a key distribution channel, the said life insurer announced its intention to incept a trust firm in June 2018, with the aim of offering asset management and trust services in the country moving forward.

In the same year, its asset management arm also declared that it will acquire 65% of the fifth largest asset management firm in Thailand, bolstering its presence on the ground.

In addition, a Singaporean bank-backed asset manager also added a second acquisition to its Southeast Asian portfolio, taking a 75% stake in a boutique Indonesian asset management firm in 2018. This is in addition to its earlier purchase of an insurance-backed global asset manager which bowed out of the Thai market in 2012.

Taiwan

In Taiwan, challenging fund raising conditions and stringent regulations have prompted foreign asset managers to act. To penetrate the Taiwanese market, asset managers typically have three possible routes:




Each route has its own set of challenges and criteria, but regulatory restrictions, including the time taken to approve new fund launches, are generally lower as the regulator acknowledges stronger commitment by foreign asset managers.

As a result, we have seen a handful of asset managers move towards deepening their presence: A US-headquartered fixed income fund house parted ways with its master agent and obtained its own SICE license to distribute its offshore funds, while several SICE holders have secured SITE licenses, either through direct application, or the acquisition of a local fund house with SITE licenses.

Exits

While new doors have opened for some, a handful of foreign asset managers have exited crowded markets. In India and Korea where there is a strong bias towards local managers, exits by global players continued in 2018. In Singapore, a passive player also shuttered its operations and is expected to serve its Southeast Asian clients from Hong Kong.

Figure 2: Entry options for foreign asset managers in Taiwan

	Entry options	Description	Commitment required from fund house	Ease of fund raising
	1. Partnership with a local master agent	Sale of offshore fund through a local entity with master agent license. A master agent acts as wholesale distributor and may help offshore managers with marketing (translation of documents, preparation of fund fact sheets etc.) and distribution activities. Master agents may represent more than one offshore fund house.	Low to moderate	Low
	2. Obtaining a Securities Investment Consulting Enterprise (SICE) license	SICE license allows fund house to launch offshore funds only	Moderate to high	Low to moderate
	3. Obtaining a Securities Investment Trust Enterprise (SITE) license	SITE license allows fund house to launch onshore and offshore funds	High	Moderate to high

Source: PwC analysis



Diversification

Asset managers operating in APAC today face a wide range of challenges, including increasing competition, compressed fee margins and regulatory pressure. Open markets in particular have attracted swathes of asset managers in both the traditional and alternative space.

Case in point: Hong Kong saw a net addition of 445 entities licensed to conduct asset management activities between 2014 and 2017, while Singapore opened its doors to at least 196 asset managers.

Figure 3: Number of licensed fund managers, Singapore and Hong Kong, 2014-2017

Year	Hong Kong	Singapore
2014	1031	591
2015	1135	628
2016	1300	660
2017	1477	715

Source: MAS, SFC, PwC analysis

Besides contending with rising competition, we have also observed a fall in fund fees in the last few years and expect pricing to trend downwards in the next few years, as seen in our global publication, *Asset & Wealth Management Revolution: Pressure on profitability*.

With active funds forecasted to fall by 24.6% between 2017 and 2025 in APAC and the race for asset gathering intensifying, asset managers are acting quickly to seek new sources of revenue to make up for the potential drop in fees. In recent times, traditional asset managers in APAC have diversified into the alternatives and passive space.

Alternatives

Institutional allocation to alternatives increasing

With central banks globally easing up on fiscal measures and interest rates gradually climbing, the search for yield has become more challenging for investors, both retail and institutional. As a result, many investors have turned their attention to private markets for alpha.

In APAC, institutional investors, particularly sovereign wealth funds ("SWFs"), have been active in alternative allocation. China's sovereign wealth fund is expected to boost its alternative allocation to up to 45%, while the Government Investment Corporation ("GIC") in Singapore has a minimum allocation of 20% to private equity and real estate investments.

While a handful of institutional investors often have multiple office locations to source private market investments directly, most institutional investors in the region lack resources and expertise, especially in offshore markets and often rely on the external asset managers.

Figure 4: National Pension Service, outsourced portfolio by asset class, (USD Bn), 2012–17

Asset Class	2012	2013	2014	2015	2016	2017
Domestic	65.9	75.0	76.5	78.8	80.0	103.7
Equity	33.2	39.3	38.0	39.0	39.6	56.5
Bond	23.3	24.5	26.4	27.5	28.2	32.6
Alternatives	9.5	11.3	12.1	12.4	12.3	14.6
Overseas	47.5	62.4	73.9	80.5	93.2	120.6
Equity	24.1	33.7	40.9	42.5	47.8	66.8
Alternatives	13.7	18.8	22.3	27.5	34.6	41.8
Bond	9.6	9.9	10.7	10.4	10.8	12.0
Total	113.4	137.4	150.4	159.2	173.2	224.3

Source: NPS, PwC analysis

The National Pension Service, South Korea's largest pension fund, for example, works with over 100 external asset managers across alternative asset classes, from hedge funds to private equity.

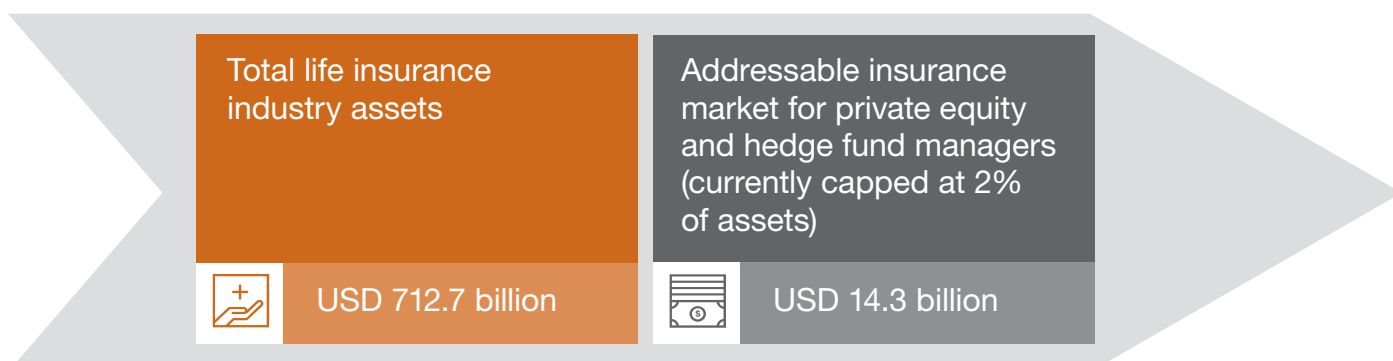
Traditional asset managers are developing in-house alternative capabilities

In addition to growing opportunities in the alternative space, regulators have also lifted restrictions on alternative classes. As a result, traditional asset managers, particularly in Taiwan and India, have been occupied with building up alternative capabilities in recent years.

Taiwan asset managers launching PE arms

In Taiwan, a handful of local managers were quick to start building private equity ("PE") capabilities following the 2018 announcement allowing asset managers with SITE licenses to expand their offerings. This is a significant change, as it allows existing asset managers to also tap on the needs of institutional investors, particularly insurers, who are keen in accessing private markets.

Figure 5: Taiwan life insurance industry assets (USD Bn), 2017



Source: TII, PwC analysis

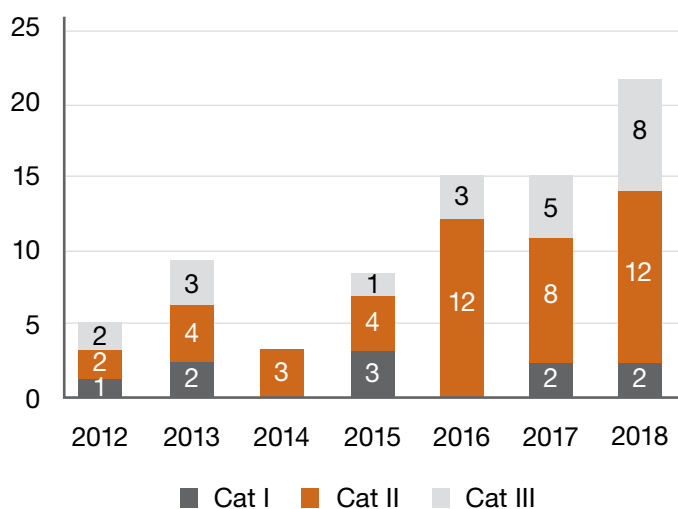


Indian asset managers are launching alternative investment funds

In India, some of the biggest local asset managers have also moved into the alternative space since the launch of the Alternative Investment Fund (“AIF”) regime in 2012.

Faced with margin squeeze in the open-ended mutual fund space, traditional asset managers have expanded into the AIF space and launched over 70 AIFs since 2012. In 2018 alone, 22 AIFs were launched by traditional asset managers, with launches in Category II AIFs taking the lead.

Figure 6: Number of AIFs launched by traditional asset managers in India, 2012–2018



Source: SEBI, PwC analysis

Types of AIFs in India

Category I:

AIFs which invest in start-ups, early stage ventures, social ventures, small and medium sized enterprises (“SMEs”), infrastructure etc.

Category II:

AIFs which do not fall into categories 1 or 3 and do not undertake leverage or borrowing. Eg. Private equity, real estate funds

Category III:

AIFs which employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. Eg. Hedge funds

ETFs

US managers building up ETF capabilities in Asia-Pacific



Other than building up alternative arms, a handful of asset managers have ventured or are making plans to move into the passive space in APAC. This is particularly apparent among US-headquartered asset managers, where there is a huge amount of pressure to manufacture exchange-traded funds (“ETFs”) due to exponential uptake in their home market.

In 2018, commitment to building up ETF capabilities in APAC increased visibly, with some asset managers going as far as setting up full investment teams in the region.

Local players tapping on the expertise of regional ETF leaders

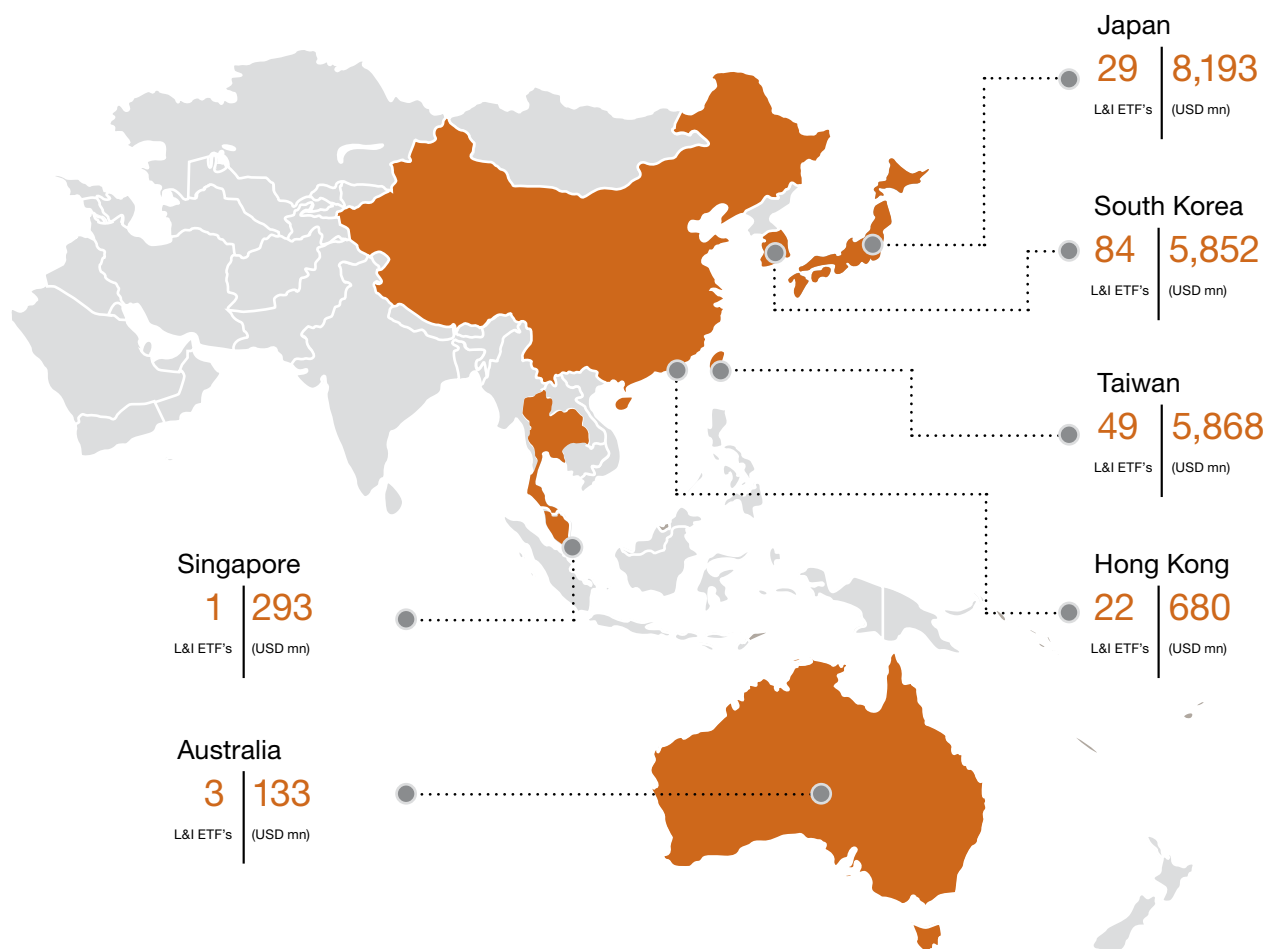
Growth and regulatory relaxations in the ETF space have also encouraged local players to launch passive products. For instance, in Malaysia where Leveraged & Inverse (“L&I”) ETFs have been permitted since January 2019, two Malaysian asset managers who are new to L&I ETFs are leveraging on the experience of ETF leaders in South Korea and Taiwan.

Figure 7: Illustration of ETF expansion plans of selected US-headquartered asset managers

Asset Manager	US	Europe	Asia-Pacific
US Asset manager 	First US ETF launched in 2014	First Europe ETF launched in November 2017	Considering ETFs in Asia in late 2018 or 2019, with new hires made in mid-2018
US Asset manager 	First US ETF launched in 2009	First Europe ETF launched in Jan 2011	Reports of interest in launching an Australian ETF business
US Asset manager 	First US ETF launched in 2003, however only expanded beyond one ETF in 2013	First Europe ETF launched in April 2017	Launched first Asia/Australia ETF in November 2018
US Asset manager 	First US ETF launched in 2013	First Europe ETF launched in September 2017	Reports of interest in launching an Asian ETF business

Source: PwC analysis

Figure 8: Number and asset size of L&I ETFs in selected APAC markets, 2018



Source: Morningstar, Bloomberg, PwC analysis



As ETF regimes in emerging APAC economies continue to liberalise, we foresee the potential for more partnerships similar to that seen in Malaysia. Traditional asset managers who are venturing into the passive space for the first time will require guidance and asset managers in countries with mature ETF markets — such as Japan, Korea and Taiwan — are well-placed to secure new partnerships, or provide sub-advisory to burgeoning players.



Increased regulations

Since the introduction of Future of Financial Advice (“FOFA”) which mandated the removal of commission payment to distributors in Australia, the region has seen continued pressure on asset managers to be more transparent. In 2018, we witnessed a series of changes targeting at bringing transparency into sales practices.

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

In December 2017, a financial services royal commission was established to investigate the alleged misconduct of banks, insurers, financial services providers and superannuation funds in Australia. Since its inception, seven rounds of public hearings involving financial entities, experts and members of the public have been conducted, each focusing on a different topic.

These hearings have provided insights into the causes of misconduct, analysing the effectiveness of the current regulatory framework and potential responses. This includes regulatory reforms to ensure the robustness and stability of the financial industry.

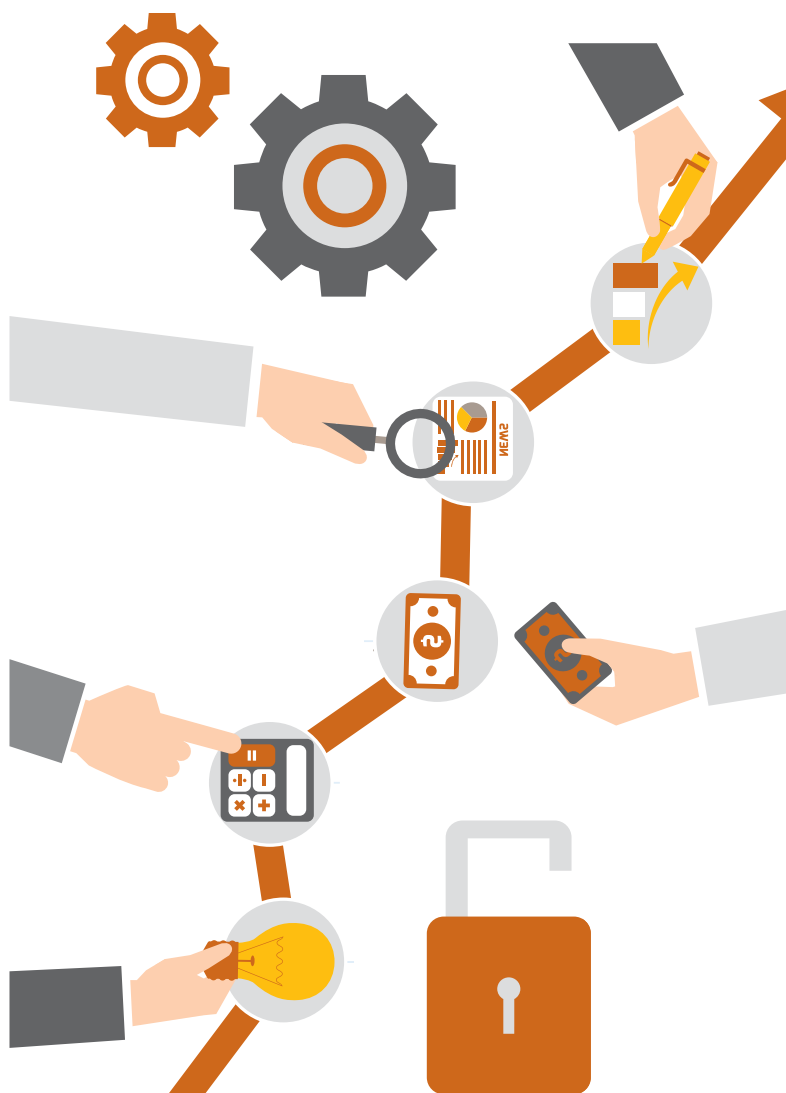
Figure 9: Topics covered during the Royal Commission hearings in Australia, 2018

	Consumer lending
	Financial advice
	Small and medium enterprises lending
	Financial services for regional and remote communities
	Superannuations
	Insurance
	Causes and possible responses to misconduct

Source: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

While a final report with recommendations is due in February 2019, there are a few key takeaways from the interim report, which was released in September 2018:

- Conflicts of interest in the financial services industry has led to misconduct
 - Regulatory reforms may be introduced to reduce these conflicts and push the industry to be more ethical
- Sales malpractice in the financial services have not been addressed adequately by regulators including the Australian Securities and Investments Commission (“ASIC”) and Australian Prudential Regulation Authority (“APRA”)
 - Regulators may enforce the law and address breaches with more severe consequences





India

In late 2018, the Indian regulator introduced further performance and Total Expense Ratio (“TER”) disclosures, where the TER of open-ended mutual funds are now capped at 2.25% of assets under management (“AUM”) for equity funds and 2.00% of AUM for all schemes. At the same time, upfront commissions paid to distributors have also been banned in the country.

While this translates potentially to lower fees and greater clarity on investments for investors, it is expected to introduce a few changes to the market. In the short run, mutual fund distributors are likely to see a fall in revenue from commissions, with smaller players, particularly independent financial advisors, experiencing the most profound impact.

Looking ahead, we expect greater emphasis on mutual fund investments through regular savings plans, known as Systematic Investment Plans (SIPs) as upfront commissions on these products can still be charged.

Taiwan

In Taiwan, it is common for distributors to work with fund houses on a campaign basis, particularly during fund launches. To incentivise distributors, fund houses often pay marketing commissions to their respective partners in exchange for promoting their products.

Effective September 2018, marketing commissions are no longer allowed, as the practice has been deemed by regulators as a key driver of churning practices in the market.

Based on our understanding, asset managers and distributors have been renegotiating fee terms. We expect the loss of marketing commissions to translate into higher trailer arrangements between fund houses and distributors.

As the region trends towards greater transparency, the message to asset managers is clear: pay-to-play models are making way for more levelled playing fields and active managers will need to differentiate by delivering true value for investors.

Figure 10: TER limits for open-ended schemes in India, 2018

AUM (INR crore)	TER for equity oriented schemes	TER for other schemes (excl. Index, ETFs and Fund of Funds)
0 – 500	2.25%	2.00%
500 – 750	2.00%	1.75%
750 – 2,000	1.75%	1.50%
2,000 – 5,000	1.60%	1.35%
5,000 – 10,000	1.50%	1.25%
10,000 – 50,000	TER reduction of 0.05% for every increase of 5,000 crore AUM or part thereof	TER reduction of 0.05% for every increase of 5,000 crore AUM or part thereof
>50,000	1.05%	0.80%

Source: SEBI



Digitalisation

Digitalisation continues to pervade the asset and wealth management industry in APAC, with players making significant investments to digitalise business processes, as illustrated in the September 2018 issue of our research digest.

On the digital distribution front, we have seen a proliferation of robo-advisors in the market and believe that the industry is on the cusp of change, particularly in the B2C segment.

B2C shakeout on the horizon

The robo-advisory market is characterised by two types of robo-advisors – B2B and B2C. B2B robo-advisors are digital wealth management platforms offered to financial advisors and businesses, while B2C robo-advisors are digital platforms that market themselves to consumers

by directly helping consumers invest their wealth.

In the B2C robo-advisory market, players can be classified either as independent robo-advisors or robo-advisors affiliated to banks or brokerages. Aimed at providing investors with a cost-efficient means of investing, robo-advisors typically charge less than 1% in management fees.

For these platforms to be profitable, robo-advisors need to build a strong base of investors. This can be extremely challenging, especially in markets with small populations such as Singapore. An illustration of the fees charged based on an estimated amount of SGD

Figure 11: Estimated robo-advisory revenue based on investment amount of SGD 10,000

	Fees for investment amount of SGD 10,000	Annual Revenue based on 1,000 investors
Robo by Singapore Bank	88	88,000
Robo by Singapore Brokerage	88	88,000
Robo by Malaysian Bank	80	80,000
Startup 1	80	80,000
Startup 2	75	74,660
Startup 3	100	100,000

Source: Company websites, PwC analysis

Based on the given estimates, it is evident that robo-advisors, particularly those which are not backed by a large corporation or investor base, will struggle to survive in the long run. Our conversations with market players in Singapore reveal that a handful of B2C startups in the robo-advisory space have had limited success in garnering investments – one had as little as USD 1 million in AUM – and are aggressively promoting their platforms through fee reductions and incentives for successful referrals.



Figure 12: Promotions by Singapore based robo-advisors

Company	Promotion
Startup 1	50% fees reduction for the first SGD 50,000 invested for 6 months
Startup 2	Referrer and person referred each get SGD 20 for new signup
Startup 3	Get up to 1 year managed free based on amount invested

Source: Company websites, PwC analysis

While a handful of robo-advisors have successfully secured funding from investors, we believe that the B2C segment, which is getting crowded in APAC, is likely to see consolidations in the next few years, emulating the evolution of robo-advisors in the United States.

In the United States, intense competition in the robo-advisory space spurred a wide range of promotional tactics with a number of large players going as far as removing minimum investment limits and promoting

near-zero management fees. As a result of compressed margins, smaller robo-advisors bowed out of the competition, leaving behind a small group of large robo-advisors which dominate the market today.

Growth of B2B robos continue

On the other hand, sentiments on B2B robo-advisors in Singapore appear to be much more positive. In fact, two B2B robo-advisor players, which count local and global banks among their clients, received USD 3 million and USD 12 million in Series A funding.

Moving forward, we expect robo-advisors, particularly in small markets in APAC to proliferate in the B2B space. B2B robo-advisors generally operate with greater flexibility – they have the ability to collaborate with local financial institutions and technology companies globally and provide white-labelled solutions to asset and wealth managers who lack in-house capabilities.



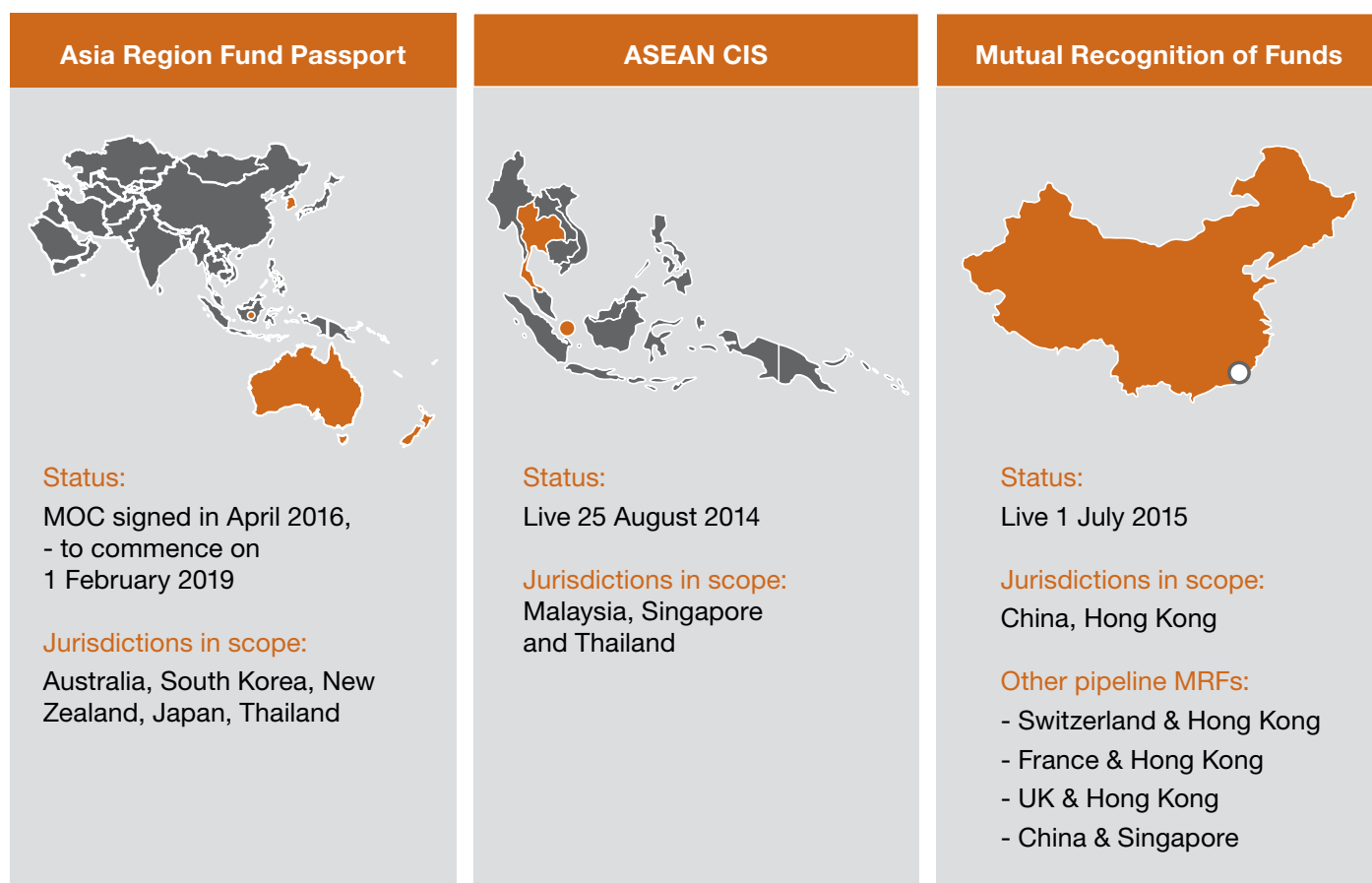
Regionalisation

In spite of the strong integration of APAC countries into the world economy, the asset management industry remains largely fragmented. Each market provides a different level of access and mode of entry for foreign players and vary widely in distribution dynamics.

As these markets develop, there is a clear trend towards regionalisation. Efforts to promote cross-border distribution of funds aim to provide significant benefits to participating economies, allowing them to strengthen the capacity and expertise of their funds industry while improving international competitiveness of their financial markets.

On the retail front, these programs also enable greater fund choice for investors while ensuring that effective investor protection arrangements are in place. To date, a number of cross-border programs have been initiated in the region.

Figure 13: Overview of cross-border programs in APAC



Source: PwC analysis

Asia Region Funds Passport (ARFP)

The ARFP is set to launch on 1 February 2019, almost three years since Australia, Japan, New Zealand, South Korea and Thailand entered into a memorandum of co-operation (MoC) in June 2016.

All five countries are reportedly ready for the implementation of ARFP, with a number of funds already obtaining registrations in their home country through a pilot process. The pilot process, which began in March 2018, involved fund advisers, operators and service providers from Australia, New Zealand and Japan, with Australia and New Zealand registering three funds and one fund respectively. The process provided participants with the opportunity to identify and discuss process issues pertaining to ARFP. However, host country arrangements have yet to be fully tested.

The Joint Committee (JC) overseeing the ARFP have encouraged fund houses and regulators to continue collaborating closely up until and beyond the implementation date to test the operational and practical aspects of offering funds from other ARFP member countries. The JC has also published the revised guidance which contains key updates on regulations applicable to fund managers looking to enter host jurisdictions.

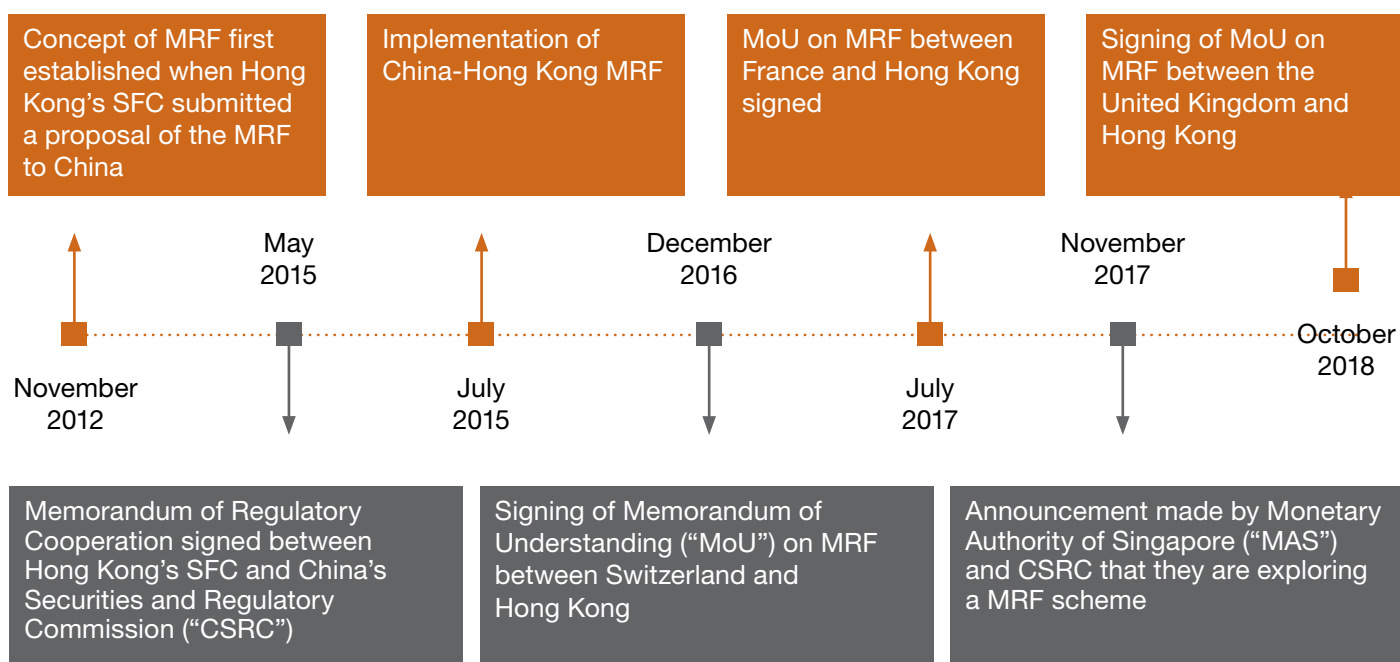
Although the JC is also seeking to understand tax considerations from member nations in an attempt to support information sharing and cooperation, it does not attempt to harmonise the tax arrangements between ARFP countries.





Mutual recognition of funds

Figure 14: Overview of MRF programs in Hong Kong and Singapore






Source: PwC analysis

Following the introduction of the Mutual Recognition of Funds ("MRF") between China and Hong Kong in 2015, Hong Kong has added Switzerland, France and the UK into its network of MRF programs. These MRFs enable Hong Kong to further its outreach in Europe

while maintaining its goal of establishing itself as an international asset management centre. Similar to the China-Hong Kong MRF, adoption of regulations and principles of the different home jurisdictions will be paramount in ensuring the schemes' success.

Figure 15: New MRF programs between Hong Kong and Europe

Eligibility requirements	Switzerland-Hong Kong MRF		France-Hong Kong MRF		UK-Hong Kong MRF	
 Domicile and fund management rules	Swiss funds	HK funds	Swiss funds	HK funds	Swiss funds	HK funds
	Fund is established, domiciled and managed in accordance with Swiss laws and regulations and its constitutive documents.	Fund is established, domiciled and managed in accordance with Hong Kong laws and regulations and its constitutive documents.	Fund is established, domiciled and managed in accordance with French laws and regulations and its constitutive documents.	Fund is established, domiciled and managed in accordance with Hong Kong laws and regulations and its constitutive documents.	Fund is established, domiciled and managed in accordance with UK laws and regulations and its constitutive documents.	Fund is established, domiciled and managed in accordance with Hong Kong laws and regulations and its constitutive documents.
 Types of funds	Swiss funds	HK funds	Both French and HK funds		Both UK and HK funds	
	<ul style="list-style-type: none"> • Equity; • Bond; • Mixed assets; • Feeder; • FoFs; • Money market; • Index; • Structured; • Funds investing in derivatives; • ETFs. 	<ul style="list-style-type: none"> • No investments in real estate; • No investments in precious metals or precious metals certificates, commodities or commodity certificates; • No short-selling. 	<ul style="list-style-type: none"> • Equity; • Bond; • Mixed assets. 		<ul style="list-style-type: none"> • Equity; • Bond; • Mixed assets; • FoFs; • Index; • ETFs; • Feeder (with certain eligibility requirements). 	
 Specific requirements	<ul style="list-style-type: none"> • HK funds looking to distribute in Switzerland cannot exceed the maximum borrowing limit of 10% of its total NAV; • In the case of a HK fund of fund, the target fund in which the fund of fund invests restricts investments in other funds for their part to a total of 10 percent. 		<ul style="list-style-type: none"> • At least 20% of the NAV of the covered fund is attributable to investors in the home jurisdiction at the end of each reporting period; • No investments in commodity based instruments and real estate, or certificates representing them; • No using leverage exceeding 100% of the fund's NAV; • Only share classes with currency hedging allowed. 		<ul style="list-style-type: none"> • No using of leverage exceeding 100% of the fund's NAV; • Only share classes with currency hedging allowed. • For HK funds: No investments in commodity based instruments and real estate, or certificates representing them. • For UK funds: No investments in real estate. 	

Source: PwC analysis

At the same time, Singapore and China also announced their intention to explore an MRF scheme as part of efforts to strengthen ties in November 2017. Although this signifies a key development in APAC's asset management space, establishing an MRF with China is still at an early stage. Considering that it took two and

a half years for the Hong Kong-China MRF to come into fruition, it will likely take some time before the Singapore-China MRF comes into full effect.

ASEAN CIS

Since its implementation in August 2014, the ASEAN Collective Investment Schemes (CIS) framework has provided retail investors in Singapore, Malaysia and Thailand with greater access to asset managers across the region.

To further promote the scheme, enhancements to the ASEAN CIS framework were introduced in February

2018 to allow for greater participation from fund managers across the region.

These enhancements include lowering the minimum AUM of asset managers, as well as limits on outsourcing to external asset managers. In addition, member jurisdictions have also pledged to shorten the review of fund authorisation applications to within 21 calendar days.

Figure 16: Overview of ASEAN CIS

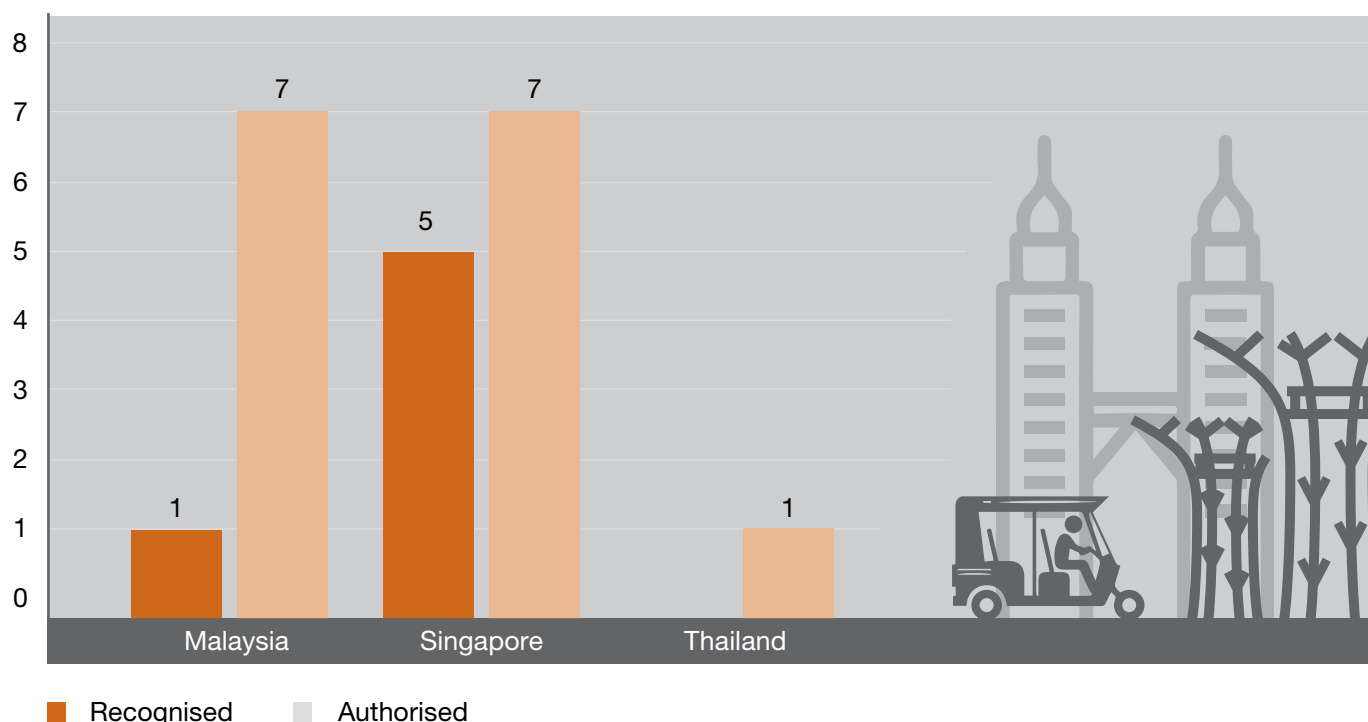
Key principles		
Appoint local distributors and local representatives	<ul style="list-style-type: none">• Use of locally licensed intermediaries in host country• May need to appoint a local representative• Subject to host country requirements on offer of CIS	
Enhancements (effective 23rd February 2018)		
	Before	After
Minimum AuM	USD 500 million	USD 350 million
Maximum outsourced portfolio	20%	100%

Source: PwC analysis

As of November 2018, 15 funds have been authorised across the three participating jurisdictions, with Singapore and Malaysia authorising 7 funds each under the ASEAN CIS scheme. In Thailand, only 1 ETF has

been approved by the local regulator under the scheme, while the local regulator has yet to recognise any inbound funds.

Figure 17: Number of ASEAN CIS Participating Funds by Jurisdiction, 2018



Source: PwC analysis



Key takeaways

In the year ahead, we expect the four highlighted trends – diversification, digitalisation, regionalisation and increased regulations – to continue shaping the region into a more robust marketplace.



Diversification

With increased competition and compressed fee margins, asset managers are expected to shift more focus into alternative and passive products.



Increased regulations

Multiple countries such as India and Taiwan have introduced new rules and disclosures in 2018. This reflects an overall trend towards greater transparency in the region, which means that active managers will need to differentiate themselves by delivering true value for investors.



Digitalisation

The relentless trend of digitalisation in the asset management industry is set to continue, with the B2C robo-advisor industry on the cusp of change. There is likely to be consolidation in the crowded B2C robo-advisory market, mirroring the market in the United States, where tighter margins led to smaller robo-advisors leaving the market.



Regionalisation

The three types of cross-border programs in the region – ARFP, ASEAN CIS and the MRFs in Hong Kong- are set to bring the fragmented APAC asset management market closer, with the ARFP expected to commence in February 2019, while the ASEAN CIS was enhanced in February 2018.

APAC continues to brim with opportunities for asset managers as new networks are built through regionalisation and globalisation and addressable assets are predicted to grow as the ecosystem evolves. However, we expect future growth will be uneven, with the most adaptable players – in the face of regulatory, product and distribution changes – garnering the most success. In the words of Charles Darwin, “It is not the strongest of the species that survives, nor the most intelligent; it is the one most adaptable to change.”

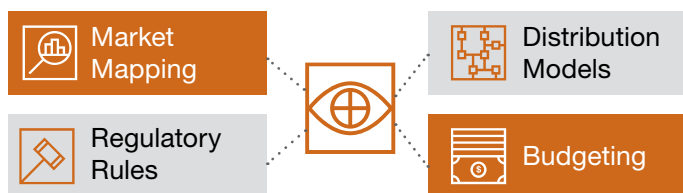


Market Intelligence Country Digest

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- The state of the asset & wealth management industry
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- Products that are in demand
- Your competitors
- Various types of investors and their asset allocations
- Fund selectors and the asset classes that interest them
- The distribution channels and how they are evolving
- High level regulatory information to get you started
- Prevailing market strategies



Benchmarking

Benchmarking studies in the fund industry act as an important tool for establishing, evaluating and justifying inter-company transactions. In achieving these objectives, the Market Research team provides support in developing such benchmarking studies – as part of the tax documentations, fund structuring and building revenue models. Perform sensitivity analysis of your funds fee structures on your profitability, by assessing alternative fee models evolving – fixed, fulcrum etc. Our dedicated market research team performs such analysis via bespoke or standardised reports.



Fund
Flows



Customised
benchmarking
comparison



House
Views



What fund
buyers are
looking at



Operational Due Diligence (ODD) & Operational Due Diligence Readiness

Poor operational infrastructure can be a drag on performance and service level. Interdependencies exist between operational risk and other risk categories. Operational failures tend to result in large losses. Increased regulatory requirements for operational risk. Our Investment Fund Centre has experience in performing ODD and prepare asset managers for ODD in the APAC region.



Australia



New Zealand



China



Philippines



Hong Kong



Singapore



India



South Korea



Indonesia



Taiwan



Japan



Thailand



Malaysia



Distribution Strategy

A robust and well-designed distribution strategy should identify the specific requirements and best practices of each local target market for the funds you wish to institute. Our analysis of local markets and key distribution channels (whether direct or via partnerships), along with current best practices, will help you develop a distribution strategy that will maximise your opportunities for success.

Asset and Wealth Management Research Digest Monthly bulletin



PwC's monthly Market Research Digest aims to keep you up to date with not only the goings-on and happenings in the Asset and Wealth Management space in Asia Pacific, but also provide interesting and thought provoking views and analysis of trends in the industry.



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Look out for our next monthly edition of AWM Market Research digest to be released end-February 2019. Subscribe to our future research digests at our website here <https://bit.ly/2s4hijH>

