The market for institutional asset management in Asia continues to grow in breadth and sophistication. Asset owners in the region (and particularly in China, Hong Kong, Singapore, South Korea and Taiwan) are diversifying their portfolios and seeking specialist advice, creating opportunities for growth in the sector. Research and consulting firm Cerulli predicts institutional investors in Asia will outsource 18% of their assets by 2021 - an increase of almost 4% compared to 2016 and 7% compared to 2012.

At the same time, shareholders and governments worldwide are putting corporations and financial institutions under the microscope to assess their ethical business practices, transparency and good governance. In this dynamic and competitive environment, what trends and challenges are asset managers in Asia facing? To find out, Odgers Berndtson interviewed Asia-based asset management executives about a variety of hot topics that are currently on their minds.
A few years ago, the main challenge identified by asset managers in Asia was regulatory control and compliance. While Asia-based asset managers continue to devote resources to meeting the demands and reporting requirements of local regulators and global internal compliance functions, a new area of focus has emerged. Asset owners are increasingly interested in investing in companies with high ESG scores and this has posed particular challenges in the region.

With ESG investing, asset managers consider a company’s ESG risk, in addition to financial risk, to evaluate its true worth. As one executive explained, “ESG is about assessing downside risk and having a long-term outlook.” Indeed, a 2012 Deutsche Bank study found that companies with high ESG scores outperformed the market over periods ranging from three to ten years.

According to Eastspring Investments, ESG-integrated assets under management grew 38% to US$10.4 trillion between 2014 and 2016. This growth was primarily driven by the European market but interest is growing in the US and Asia. Aberdeen Standard Investments concurs and notes that ESG is becoming mainstream in part because of “the changing demographics of the global investor base, which increasingly includes more women and millennials, both of whom have been shown to express a greater interest in stewardship.” The UN-endorsed Principles for Responsible Investment have been signed by over 1,800 asset owners, investment managers and service providers, 14% of which are in Asia Pacific. But is this a meaningful instrument and commitment? As Alistair Thompson, Senior Portfolio Manager at First State Investments noted, “UNPRI needs to take action against signatories [that breach its principles] otherwise it’s just lip service.”

**Source:** Global Sustainable Investment Review, 2016
For asset managers, part of ESG investing is educating investor companies about the importance of monitoring and transparently reporting ESG risk. Alex Henderson, Head of Distribution for APAC at Janus Henderson Investors, calls this “knowledge shared.” This can be a challenge in Asia as the ESG movement is being led by fund sponsors and global head offices and will take some time to be accepted by the market. For one thing, the more hierarchical relationship between investors and company management in Asia can prevent frank discussions around ESG risk. In addition, many large Asian companies are under family control and discussions around governance and transparency, especially with respect to related party transactions, cross-shareholdings and minority shareholder rights, are not welcomed.

Asset owners and regulators, however, are focused on the issue. Since 2014, Hong Kong, India, Malaysia, Singapore, South Korea and Taiwan have all adopted investor stewardship codes. Jon Allen, Head of Distribution, Asia Pacific for Columbia Threadneedle Investments, notes that in Australia, ESG is fully integrated into the professional investor business model and a number of sophisticated Asian Sovereign institutions are actively incorporating ESG into their investment strategy. Lennie Lim, Managing Director and Regional Head for Asia, Legg Mason Global Asset Management, adds that recently a pension fund in Taiwan included an ESG component in their RFP. Regulators in China are also promoting ESG through various training and policy initiatives and the China Securities Regulatory Commission will require all listed companies to report on their environmental impact by 2020. Still, Andrew Cormie, Investment Director at Eastspring Investments, notes that commitment to ESG among investors, and the extent to which asset managers have integrated ESG into their investment processes, vary greatly across the region.
Many of the executives we interviewed stressed that Asia has a strong female workforce and that their offices in the region employ a high percentage of women, compared to the global diversity figures for the industry. To provide some perspective, Rossen Djounov, Managing Director and Head of Asia at GAM Investments, reports that his Hong Kong office employs 71% women while the firm’s Swiss office is 71% men. The executives attributed greater gender diversity in Asia in part to their commitment to diversity-promoting policies. For example, Lennie Lim reports that Legg Mason has recently hired a Chief Diversity Officer and his Asia sales staff is majority female. According to Ajai M. Kaul, Chief Executive Officer, Asia ex Japan for AllianceBernstein, Alliance Bernstein has long provided for flexible working arrangements recognising how technology and changing employee expectations is shaping the how we work today. These arrangements are slowly finding favour in Asia as well. Hugh Young, Head of Asia for Aberdeen Standard, notes that his Singapore office is “best in class” in the firm globally for gender diversity. In 2017, Eastspring Investments launched the ‘Career Comeback for Women’ programme in Malaysia and globally Prudential is investing in unconscious bias training, mentoring and diversity in recruitment. The firm has set a target of 27% for women in senior management by the end of 2019 (currently 25%).

While the #metoo movement has been slower to take hold in Asia, and Asian companies are less likely to have policies in place to prevent and punish sexual harassment, diversity and inclusion are now an inescapable part of the conversation. A firm’s track record on this front can have an impact on how it is viewed by potential investors and staff, which is why the executives we spoke to feel that this issue is “critical” for success and something they will continue to pay a lot of attention to.
**Hot Topic: China**

One of Asia’s fastest growing asset management markets is China, especially its retirement and insurance segments. Many of the firms we spoke to are currently launching or expanding their presence in China and are encountering unique challenges in the process. For example, communication in China is conducted increasingly through the ubiquitous WeChat messaging and social media platform and international firms are struggling to manage the compliance issues this raises. Ajai Kaul at AllianceBernstein notes, “some firms are considering partnering with WeChat to come up with secure and workable solutions,” however this will take time.

The pervasiveness of WeChat also poses unique opportunities for distribution and marketing once asset management firms come to grips with the myriad uses of the platform and the access it offers.

Governance challenges are still commonplace in China but the regulatory and ESG landscape is developing rapidly. In a bid to improve its environmental sustainability track record, China has made significant investments in renewable energy production and is currently the world’s largest market for electric vehicles. Overall, governance standards can be expected to improve over time as investment flows into the country and both asset owners and investment managers continue to raise questions with respect to ESG risk. **In short: WATCH THIS SPACE.**

*Source: Tencent; Tech in Asia*
Hot Topic: Talent

Lennie Lim at Legg Mason Global Asset Management didn’t mince words, describing the recruitment landscape in Asia for asset managers as a “war for talent”.

The tight talent market can be attributed to a combination of regional growth in the business creating more demand from international and local players, competition for the best talent from investment banks, FinTech firms and others, and a need for highly trained specialists and global, strategic thinkers, which can be harder to find in less developed markets. For international firms, cultural fit and language skills can be an additional challenge.

Specific roles and functions like compliance and control, which have been in the spotlight since the Global Financial Crisis, continue to be in high demand, according to Ajai Kaul at AllianceBernstein. Other hiring challenges include finding employees with specific AI and FinTech experience, pensions expertise, and specialised asset management skills. In addition, Rossen Djounov at GAM Investments notes that it is common for senior asset managers to be locked into long-term compensation incentive plans, which “makes senior hiring very expensive” and challenging for new firms in the market. As a result, some of the executives we spoke to are building out their Asia business by grooming leaders and promoting or relocating talent from within the firm as much as possible and hiring externally only when necessary.
The hot topics on the minds of the asset management executives in Asia we interviewed – ESG, Diversity & Inclusion, China and Talent – all overlap and combine to create a set of unique challenges for the industry. In order to remain competitive and attract the best talent, asset managers in Asia need to distinguish themselves based on more than just strong investment performance, tailored solutions, and specialised expertise. They need to develop strong client relationships, take a hands-on approach to the management of ESG risk with investor companies, and have a visible on-the-ground presence in the markets where they wish to grow.
FINANCIAL SERVICES PRACTICE

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Nick is a Partner and Head of the Asia Pacific Financial Services practice, having joined Odgers Berndtson Singapore office in May 2017 and appointed practice head in February 2018. Nick’s has been in the executive search industry since 2001 based in Singapore; he has a track-record of leading senior-level assignments for clients across financial services. Nick began his executive search career working for a boutique search firm as a consultant and ended up running the Singapore office and Global Markets Practice for Asia; going on to be the founding partner of two start-up boutique executive search firms for the past ten years. Before joining search, he earned his credentials on the Sydney Futures Exchange, working for UBS, where he was Head of Trading on the SFE.

Nick specialises in finding senior executives including CEO, NED, Managing Directors across Institutional and Investment Banking, Corporate Banking, Global Markets (both debt and equity), Insurance, Private Equity and Real Estate Finance.

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