FLEISHMANHILLARD

# The Future of Asset Management

## in Asia 2023

# EXECUTIVE SUMMARY

After three years of market-leading research on the asset management industry in mainland China, last year we broadened its scope to include more markets in Asia, namely Hong Kong SAR, Singapore and South Korea, as well as mainland China, in the retitled The Future of Asset Management in Asia report. Thanks to the success of the Asia report, we are pleased to say that in addition to this year's Asia and China reports, European and US versions will be published in the coming few months. Combined, these reports will provide global and regional perspectives on the asset management industry.

In 2022, the resilience of Asia's asset management sector came to the fore amid a catalogue of negative influences from rising interest rates and slowing economies to Covid-19, the war in Ukraine and geopolitical issues, all of which created a very challenging environment that saw a sharp drop in net inflows overall, with net outflows in certain types of funds.

Yet, by the year-end and into early 2023, despite higher risk premiums, the underlying appetite for Asian funds saw a dramatic rise in flows back into the market as parts of the region reopened post-Covid. The prospects for the sector have improved discernibly as inflation has slowed, suggesting that the cycle of central bank interest hikes is set to slow if not end. That said, 50% of respondents cited inflation/stagflation as the number one risk in the next 12 months, and only investors in Hong Kong (31%) are willing to move some of their investments into high-risk assets.

In 2023, asset managers have already become more active in the region, but they continue to face huge challenges, such as the fallout from the collapse of Silicon Valley Bank (SVB) and the very strong likelihood of recession in the US.

Yet against this backdrop, lower equity valuations point to value opportunities in growth sectors in a region endowed with economic vibrancy and huge pent-up wealth, all of which helps to explain the growing number asset management firms expanding in Asia and applying for Fund Management Company (FMC) licenses in mainland China.

Our report shows that asset managers must continue to up their game in strengthening performance (94%) and credibility (93%) as these two continue to be the most important factors when investors choose asset managers. The growing interest in digital assets and cryptos (Asia 52% ex-China), private assets (PE funds 28%, up 11 pps from last year) and use of ChatGPT/AI tools (23%) to obtain information on investment products are also factors that asset managers need to consider in product and technology innovation.

Asset managers will also see the upcoming global standard in ESG and sustainability reporting and disclosure to be annnounced later this year with a view to implementation at the start of 2024. The objective is to harmonize global sustainability and climate disclosure standards, so that they are understandable and enforceable, and bring transparency, accountability and efficiency to the markets.[1] In Asia, 80% of respondents clearly stated that they view a strong ESG product offering as one of the most important qualities for an asset manager.

We hope you find this report insightful to help you navigate the complexities of asset management in Asia.

Best,

**Patrick Yu**

*GM, SVP and Senior Partner,*
*Asia Pacific Lead,*
*Financial and Professional Services Sector*
*FleishmanHillard*

# ASIA

## Wealth accumulation packs region with potential

Last year was a mighty tough one for the asset management industry in Asia, yet the sector and region offer huge growth opportunities for asset managers that keep pace with the rate of change as massive built-in wealth accumulation enters the market in the coming years.

Net inflows fell by nearly 50% to $286.8 billion in the year to November 2022 from the same period in 2021. While markets including Australia, Japan and mainland China did see net inflows during the period, albeit at a much reduced rate, other markets fared worse, such as South Korea which experienced $10.8 billion in outflows.[2]

Generally speaking, Asian investors were more positive towards equities funds than investors elsewhere in the world, but they were also massive sellers of fixed income funds.[3] While the global funds industry suffered outflows at the highest rate since the 2008 financial crisis, in Asia the bear market was less severe than in other parts of the world.

Asia Pacific equity funds enjoyed inflows in 2022 while other parts of the world, such as the UK and Europe, saw large outflows. Asia also saw a smaller decline in assets under management (AUM) compared to the global average. Global AUM fell 21% to $56.2 trillion by the end of September 2022 from the end of 2021. In contrast, AUM in Asia fell by around 14%, with the biggest decline in Japan mainly due to the weak yen.[4]

While all asset classes saw decreases in net inflows across the region, balanced or multi-asset funds suffered the biggest declines with net outflows of $23.7 billion compared to net inflows of $138.4 billion in 2021.[5]

## Promising wealth management market in Asia

What's clear, however, is that Asia's wealth segment is flourishing and continuing to present tremendous opportunities for asset managers. The net worth of region's affluent and mass-affluent segment – those with investable assets of $100,000 to $1 million – is projected to reach $4.7 trillion by 2026, up from $2.7 trillion in 2021, as Asians' incomes rise.[6]

But there are challenges. Asset managers face shrinking margins and a squeeze on fees, while investors are more active and engaged, and expect a higher level of personalized service. As well, digitalization is playing a greater part, notably with increased competition from non-traditional challenger fund managers and the growth in robo-advisory services. The number of robo-advisory users in Asia is projected to grow to 400 million by 2024, from 111 million in 2020.[7]

## ESG funds on the rise in Asia

And, alongside all of that, investor interest in Asian ESG funds is skyrocketing. Net inflows into Asia ex-China and Japan sustainable funds reached $911 million in the first quarter of 2022. Mainland China ESG funds drew in a net $11.6 billion in 2021 to reach a record asset value of $46.7 billion – overtaking the US as the world's second-largest climate investment market.[8]

The new global sustainability disclosure standards to be launched later this year will help to align fund manager practices with investor appetite, helping the ESG sector of the market to flourish. According to the World Wild Fund for Nature Singapore, Asian fund managers currently trail far behind their European counterparts in addressing ESG risks, particularly those in mainland China. Lack of disclosure is a big issue. Only one in 18 Asian asset managers has a direct link between remuneration at senior level and ESG performance.[9] But that will change.

The region is expected to grow its ESG AUM to $3.3 trillion by 2026 from $1 trillion in 2021, according to PWC, which would represent the largest percentage growth in ESG-related AUM of any region globally, with Europe expected to increase by 35% and North America by 133% in the same time period.[10]

# HONG KONG SAR

## Cautiously optimistic, betting on mainland China reopening

Hong Kong saw close to $50 billion in net outflows from funds sold in the territory last year, with its retail fund sector enduring its worst-ever year for net outflows, driven by rising interest rates, uncertainty about mainland China opening up post-Covid, investors adopting more risk-averse investment strategies, and the broader political and economic uncertainties. Yet the market's response to these issues suggests an upturn is not far off.

Total assets of all locally and offshore-domiciled funds sold in the territory plummeted by 25.5% in 2022, while net fund outflows topped $47 billion. Retail bond funds, including those using high-yield strategies, saw net outflows hit $7.74 billion.[11]

Hong Kong investors' appetite for equities funds has fallen steadily over the past five years with money redirected into multi-asset and bond strategies. That trend continued in 2022. Hong Kong-domiciled equities funds fell to $47.5 billion by the end of 2022. down by 23.1% as compared to the end of 2021. Offshore-domiciled equities funds dropped to $740.6 billion in the end of 2022, down by 28.6% as compared to the end of 2021.[12]

The cycle of interest rate hikes by the Federal Reserve last year presented major challenges to asset managers and fund distributors. As the cycle has nearly finished with the Fed likely to start cutting rates in 2024, fixed income funds will become more attractive as rates peak.

The market has adapted to the new interest-rate environment, with most new funds since the start of 2023 offering high dividend payments or inflation-busting returns to appeal to jittery investors. Fund managers are also rolling out money market funds to appeal to risk-averse investors. Such funds began to grow in popularity last year as investors sought sanctuary in their higher yields amid the market turmoil.

The reopening of Hong Kong's border with mainland China is generating cautious optimism about the prospect of improved sales and successful upcoming fund launches. In Hong Kong, investors are looking for more diversified and alternative investment ideas, with inflows to global multi-asset funds, China equities funds, as well as into global fixed-income funds to secure the higher yields. The reopening of the border prompted a rebound in sales of retail bond funds in the territory.

Meanwhile, the Securities and Futures Commission (SFC) has proposed the expansion of the Greater Bay Area Wealth Management Connect scheme to mainland regulators.[13] Under consideration are some cross-border investment ideas, including an expansion of the range of eligible products, relaxing investment promotion restrictions and allowing more financial institutions to participate in the scheme.

Looking forward, the Hong Kong Private Wealth Management Association has mapped out the Hong Kong Wealth Management 2035 Long-Range Objectives. There are five key objectives: mutual access with the Mainland; asset platform building; bi-directional cross-border practice; industry expertise cultivation; and digital capability enhancement.[14]

## Virtual asset trading hub

Besides looking to increase cross-border flows, the SFC has also launched a consultation on proposed requirements for operators of virtual-asset trading platforms.[15] Under a new licensing regime that will take effect June 1, 2023, all centralized virtual-asset trading platforms conducting business in Hong Kong or actively marketing to Hong Kong investors will need an SFC license.

The move is part of an ongoing push to make Hong Kong a regional hub for virtual assets. However, the Hong Kong Investment Funds Association warns that more needs to be done to safeguard retail investors in this sector.[16] Asset managers play an important part in this, as they will be helping retail investors to conduct virtual asset transactions in the wake of any regulatory changes.

## Strong appetite for ESG funds in Hong Kong

While Hong Kong seeks to become a virtual asset trading hub in the region, it is already one for trading in ESG-compliant assets. In 2020, the SFC created a list of approved green and ESG funds, whch has now grown into around 150. Hong Kong issued disclosure rules for ESG-labelled funds or funds with an ESG investment focus in April 2019. In January this year, it updated its disclosure requirements so that managers must conduct an annual assessment on a fund's ESG focus.[17]

Appetite for ESG products is strong. This combined with a return to relative normality, including open borders with mainland China and the ongoing growth in cross-border investment opportunities, suggests that the outlook for Hong Kong's asset management sector has plenty of potential for growth.

# MAINLAND CHINA

## Market continues to open up with more products, WFOEs and ESG after a tough 2022

As Asia's asset management industry haemorrhaged funds through much of last year, it was the mainland China market more than any other that offered a torniquet to stifle the outflows. Yes, it was a horrible year for mainland fund managers, but not as bad as elsewhere.

Mainland China was one of the few markets to achieve net inflows, a reflection of its solidity and resilience that now hold it in good stead looking forward. Not only that, the entry of global fund managers as wholly owned-foreign enterprises (WFOEs) to China's domestic mutual fund market shows that Beijing remains committed to opening-up.

Net inflows into mutual fund assets in mainland China plunged amid the country's strict Covid policy, falling exports, a weak property sector and, more broadly, slowing economic growth. Alongside that, trade and geo-political issues undoubtedly raised risk premiums, spooking investors who were looking to invest in mainland China.

According to Morningstar, AUM of 10,263 China-domiciled mutual funds managed by 154 fund houses fell 6.98% to $2.06 billion (CNY 14.23 trillion) in September 2022 from $2.29 trillion (CNY 15.83 trillion) a year earlier.[18] Net inflows into the mutual fund market in the first nine months of 2022 were $174.32 billion (CNY 1.21 trillion), down 50.2% from $350.39 billion (CNY 2.11 trillion) in all of 2021.

In January 2023, AUM in China's mutual fund industry stood at $3.95 trillion (CNY 27.3 trillion), up from $3.75 trillion (CNY 25.9 trillion) a year earlier and from $2.00 trillion (CNY 13.8 trillion) in January 2019, just before the pandemic.[19]

China-domiciled funds saw the biggest outflows. Shanghai-Hong Kong-Shenzhen flexible allocation funds stood out as the worst performing type of fund in the first nine months of 2022, with net outflows of $17.25 billion (CNY 119.25 billion).[20] These funds specialize in investing in assets across the three cities.

At the other end of the scale, money market funds performed best with net inflows of $87.75 billion (CNY 606.63 billion), followed by short-term bond funds and pure bond funds with net inflows of $41.21 billion (CNY 284.89 billion) and $17.27 billion (CNY 122.50 billion) respectively.[21]

In the year through to the end of November, the economic and market uncertainties saw a reduction in the number of funds launched in mainland China's primary mutual fund market.

During the period, there were 741 new fund launches, down from 961 during the same period of 2021. Funds raised dropped sharply by 58.4% to $96.19 billion (CNY 670.2 billion) from $232.94 billion (CNY 1.61 trillion).

Beijing finally ended its zero-Covid policy in early December last year and mainland China began to reopen giving an economic lift regionwide. The circumstances of 2022 saw China record its lowest gross domestic product growth in decades. Its GDP growth for the year was 3%. However, it recorded higher than expected GDP growth in the first quarter of 2023 of 4.5% year-on-year. The growth target for the year is 5%. The rebound in mainland China's property sector in early 2023 has also given the market a boost.

While the market looks set for recovery, thanks to structural dynamics that are built-in, such as pent-up wealth accumulation, other factors behind the general market tumult remain. The war in Ukraine, tensions over Taiwan ROC and other geopolitical actions are having an impact on US and other global companies operating in mainland China.

## China issues more FMC licenses, and more overseas firms taking full control of the JVs

Effective April 1, 2020, the Chinese government scrapped foreign ownership caps in the mutual fund sector under a China-US trade deal. Since then, there has been gradual entry of global mutual funds into the mainland China market. The speed of entry has been affected by Covid pandemic.

As of end of March 2023, five financial institutions have secured Chinese regulatory approval to establish WFOE retail fund units to conduct business in mainland China's mutual fund industry. The China Securities Regulatory Commission (CSRC) granted licenses to these financial institutions to enable them to offer onshore investment products and solutions to retail clients and asset management services to institutional clients in mainland China.

In addition, three financial institutions received the regulatory go-ahead to take full control of their Chinese mutual fund ventures. However, from getting a regulatory nod to getting a business license can take some time.

Several other global asset managers are also preparing for onshore retail mutual fund businesses in mainland China, with more licence approvals in the pipeline for the rest of the year.

## WFOE private fund manager QDLP launches

In March 2023, mainland China saw the launch of its first Qualified Domestic Limited Partner (QDLP) fund managed by a WFOE private fund manager (PFM). It is a significant development because it means that foreign fund managers can now invest globally with the funds raised in mainland China.[22]

The QDLP program was developed to allow fund managers to invest overseas with money raised in mainland China. It is a quota-based program, whereby the amount each QDLP is allowed to make in outbound investments is capped by a quota approved by the State Administration for Foreign Exchange (SAFE).

The WFOE PFM is a separate program launched in 2016 that was initially designed to allow foreign fund managers to raise funds and invest domestically in mainland China. By linking WFOE PFMs with QDLP, foreign fund managers will be able to optimize the capital structure, as well as human, market and other resources for their business in mainland China and across the globe.

## Private pensions take off

Arguably the most significant development for the asset management sector in mainland China last year was the launch of China's third pillar in its pension system.

The country is like just about everywhere else in the world in having a pension readiness problem – peoples' pensions are not large enough to cover their retirement needs. Mainland China's pensions have traditionally been offered through a Pillar I social scheme with the option for Pillar II employer-sponsored supplemental plans.

In November last year, mainland China launched a pilot for Pillar III, a voluntary tax-favoured private pension scheme under the third pillar of the country's pension system – essentially an individual retirement account (IRA).
The move is the most important development in years and the biggest change in the pension sector since the launch of the Public Pension Fund (PPF) in 1997.

Mainland China's aging population and declining birth rate, low social pension benefits, and limited uptake of employer-sponsored plans have created a need for an official voluntary pension scheme that can utilize current individual savings in a regulated, sustainable and tax-efficient manner to help individuals save for retirement.

This new development is expected to help the private pension industry grow from its current $300 billion (CNY 2.07 trillion) value to at least $1.7 trillion (CNY 11.75 trillion) by the year 2025.[24]

The pilot has been launched in 36 cities,[25] including all the tier 1 and tier 2 cities, and will run for a year before being expanded to more parts of the country – no timeline or date has been set for this expansion. The private pension plan is open to all mainland Chinese citizens and resident workers who currently contribute to the basic pension insurance for urban employees or the basic pension insurance for urban and rural residents.

Individuals are limited to one pension account each and are allowed to make voluntary contributions of up to $1,736 (CNY 12,000) per year into their individual pension accounts and enjoy tax relief. They can withdraw their pension benefits when they reach the retirement age or in the event of disability, death or permanent immigration abroad.

Between 25 November when the pilot started and the end of 2022, the trial drew 19.52 million participants, of whom 6.13 million have made their first contribution to their IRA. That figure rose to 28 million by the end of March 2023, according to Bloomberg.[26]

The new system encourages more than one billion people in mainland China to start their individual pension savings, creating opportunities for various types of service provider. The latter includes fund managers and banks, but more will follow with red-hot competition likely. It is time to sit tight for a likely surge in consumer demand.

## REITs on the rise

In the midst of the Covid lockdown in June 2021, nine China real estate investment trusts (C-REITs) made their public debut on the Shanghai and Shenzhen bourses, with an aggregate value of $4.52 trillion (CNY 31.2 trillion). They were the first such C-REITs and held infrastructure assets from toll roads and waste treatment plants to logistics and industrial parks.

Since then, through 2022, the C-REIT market has grown dramatically, raising capital totalling more than $10.86 billion (CNY 75 billion), with the listing of 24 infrastructure and rental housing REITs as of December 2022. Asset classes covered by

C-REITs expanded last year to include affordable rental housing with three public rental housing REITs that raised a total of $0.55 bilion (CNY 3.8 billion).[27] Regulators are looking to further broaden the scope of REITs to include consumer-linked infrastructure projects to drive investment. Such projects would include department stores, shopping malls and farmers' markets.

Overall, C-REITs have seen spectacular growth over the last 18 months and, given the vast amount of infrastructure and resources in mainland China, the potential for further growth is huge.

In early 2023, mainland Chinese officials called on domestic asset managers to more than double initial assets raised for REITs in 2023, while also diversifying their underlying assets to include more technology-themed investments. Mainline China's state planning agency is targeting $28.96 billion (CNY 200 billion) in initial fundraising for a total of 60 REITs by the end of this year, up from the current amount raised of $13.16 billion (CNY 91 billion) since June 2021.

## Reforms set for wealth connect and HK-China MRF

Further reforms are in the pipeline for the expansion of the Greater Bay Area Wealth Management Connect (WMC) and the Mutual Recognition of Funds (MRF) schemes after proposals put forward by the SFC were well received by mainland regulators. The reforms are likely to take place by mid-year.

Mainland China seeks to leverage Hong Kong's position as an international financial center to attract more foreign investors from Europe and the US through the various connect schemes between Hong Kong and mainland China.

Thus far, both schemes have underwhelmed fund managers who have been unable to take advantage of the WMC and MRF schemes due to the limited scope and strict requirements of the products. However, the new reforms seek to address these issues and will likely expand the range of eligible products, relax investment promotion restrictions, and allow more financial institutions to participate.

The Greater Bay Area WMC cross-border investment scheme allows eligible financial products including locally domiciled mutual funds to be distributed between Guangdong province, Hong Kong and Macau. It was launched during the Covid pandemic in October 2021.

Currently, given the regulatory and policy barriers in mainland China, Hong Kong banks and fund managers are not allowed to provide cross-border advisory services. Fund managers also complain that the existing scheme only allows the sale of rather unexciting low and medium-risk products to mainland Chinese investors, who are more attracted to higher risk products with higher returns.

Meanwhile, the Hong Kong-Mainland MRF scheme, which was launched in 2015 to facilitate cross-border fund sales, is set for change. The MRF scheme has been criticized for its restrictions on inflows from mainland investors, and the requirement that fund products are domiciled in Hong Kong.

The MRF scheme requires that a Hong Kong-domiciled fund seeking approval for sale in mainland China must ensure that its fund manager holds a Hong Kong asset management license and does not delegate the fund's investment functions to overseas managers. The objective was to encourage global fund houses to expand their local teams and operations, and to foster Hong Kong's growth as an investment management hub. But the SFC has acknowledged that this is inefficient, so it will likely be changed.

Another irksome MRF regulation is the one that the size of assets raised for any fund in the mainland cannot surpass 50% of the fund's total assets.

By the end of 2022, a total of 84 funds had been sold northbound and southbound under the MRF scheme, with a total net subscription of $1.82 billion (CNY 12.56 billion). Hong Kong-domiciled funds sold to mainland Chinese investors via the MRF scheme recorded a 19.3% year-on-year drop in cumulative net subscriptions to $1.67 bilion (CNY 11.54 billion) by the end of 2022 from $2.07 billion (CNY 14.3 billion) at the end of 2021.

## ESG compliance lags, while Chinese demand for ESG products booms

China's performance on ESG-compliant investing during the past year is a mixed bag. On ESG ratings, its companies rank lower not only than overseas nations, but also most emerging markets. A combination of censorship, surveillance, environmental and labor issues undermine its efforts to follow ESG principles. In particular, the semi-conductor sector has been targeted for US national security reasons.

Sustainalytics, the sustainable rating agency owned by Morningstar, in October 2022 downgraded three leading household-name Chinese tech companies on its watchlist to the category of "non-compliant with UN principles".[28]

A recent report from World Wild Fund for Nature noted that Chinese asset managers need to put more attention on setting higher standards. The report showed that during the past year, among Chinese asset managers, there was a decline in the relevance of sustainability in the organization's strategy and investment beliefs, a sharp decline in active ownership and a reduction in disclosures.[29]

On a more positive note, the recently established ESG Committee of the China Association for Public Companies (CAPCO) has said China needs to build an ESG management and evaluation system "with Chinese characteristics and international recognition", which shows a desire to accelerate ESG development in China in such a way that it works within the international framework. The new global ESG reporting and disclosure standards to be launched later this year will also help to improve performance in this area in mainland China.

Against a backdrop of the global rise of the anti-greenwashing movement in ESG investing, mainland Chinese regulators are prioritizing to clamp down on greenwashing. It means that asset managers will become increasingly rigorous in their product naming and marketing materials. As ESG investment grows, so the regulators will look more closely at this issue.

## Looking forward

For asset management companies in mainland China, looking forward, the biggest challenges will be to both stay profitable while delivering returns that meet investors' high expectations. Fees and margins are under constant pressure, especially given the rise of ETFs, robo-advisory and new challenger players in the market.

In the retail funds industry in mainland China, there is a tendency for investors to "trade" funds like stocks drawing on intermediaries' advice to help with their investment selections, resulting in more fund flows, both in and out, which can impact long-term performance. In addition, as retail funds tend to be sold rather than bought, distributors often take a big cut of the management fee – sometimes as much as 50% – that would normally go to fund managers.

Investors will ideally recognize the benefits of long-term investment and make their investment decisions accordingly.

# SINGAPORE

## Positioned for growth with focus on sustainable returns

Singapore's asset management sector suffered in 2022 on the back of an economic slowdown, high inflation and rising interest rates, with net fund outflows overall. Net inflows of $1.18 billion (S$1.56 billion) during the first quarter masked the scale of the outflows through the remainder of the year, which ended with net outflows of $105.5 million (S$140 million), down sharply from the record fund inflow of $337.61 billion (S$448 billion) in 2021. [30]

Yet the number of fund managers, family offices and other variable capital companies (VCCs), including hedge funds and private equity, establishing operations in Singapore continued to grow last year. This was largely in response to the tough measures to combat Covid in mainland China and Hong Kong, which led to entrepreneurs and investors expanding into Singapore.

Investors, particularly mainland China's ultra-rich, increasingly view Singapore as a safe haven for their investments. They see Singapore as the Switzerland of Asia, backed by neutrality, strong regulatory framework, low crime and corruption, low taxes and high standards of education.

Singapore is estimated to have had 1,500 family offices at the end of 2022, with most coming from mainland China, up from 700 a year earlier.[31] As of March this year, more than 800 VCCs[32] had been set up or re-domiciled in Singapore, up from around 400 in late 2021.[33] By the end of last year, more than half of the top 50 global alternative asset managers and about 40% of the top 50 global hedge fund managers had set up offices in Singapore.[34]

Meanwhile, the number of licensed and registered fund management firms in Singapore, which rose 15% to 1,108 at the end of 2021, remains steady. In 2021, Singapore's AUM grew 16.4% to $4 trillion (S$5.30 trillion), faster than the global AUM growth of 12%.

## Singapore asset management industry on the rise

Despite the challenges faced last year, Singapore's market ecosystem has grown while the near-term market dynamics have been accompanied by discounted valuations both in Singapore and pan-Asia. This holds out the prospect of strong investment opportunities.

Investors see the Singapore's post-Covid resurgence is underway. The Investment Management Association of Singapore's (IMAS) fund managers, who manage combined global assets under management (AUM) of $30 trillion (S$39.75 trillion) are optimistic about the recovery of Asian equity and credit markets in 2023.[36] The optimism is based on expectations of a market uplift from mainland China's reopening and recovery.

But for fund managers, no bed of roses awaits. In Singapore, like elsewhere in the region, they face the threat of persistent margin erosion as lackluster performance and market volatility hamper investors. As well, the rise in popularity of low-cost passive investment platforms also threatens the role of asset managers, with index providers superseding them.

## Thematic investing in huge demand in Singapore

There are trends within trends too. Investors in Asia, especially in Singapore, are increasingly shifting their attention to the investment opportunities behind global megatrends, such as climate change, technology disruption and the rising middle class. They see thematic ETFs as a cost-efficient way to access the opportunities presented by megatrends. Fund managers' interest in thematic ETFs rose to 45% in 2022, up from 10% in 2021, according to IMAS.

With the upward interest rate cycle close to peaking, there is renewed interest in fixed income. IMAS notes that the higher yields offered are lifting demand for fixed income across the spectrum including global bonds, corporate bonds, fixed maturities and private debt, but not emerging market local currency bonds.[37]

## Alternative and private markets

There is also healthy investor appetite for diversification from the public markets with their quest for alpha driving sustained demand for alternative investments that offer higher margins.

Despite the travails of the market, fundraising in the alternatives sector remained strong in 2022. Singapore's alternative AUM is growing faster than the overall industry, at 30% year-on-year.[38] Together, hedge funds and private equity/venture capital account for two-thirds of the total alternative AUM in Singapore.

## ESG top of investors' mind

While there's growing interest in alternatives, ESG remains at the top of investors' agendas, notably with carbon-reduction strategies emerging as a growth area in fixed income. Fund managers recognize the need for sustainable investing, the investment opportunities in low-carbon transition and the potential for green capital to generate sustainable returns as more businesses and governments across the region commit to net zero targets.

Singapore is well placed to lead a recovery in ESG and sustainable investing in compliant funds. The launch of the upcoming global sustainability disclosure standards later this year will be an important driver, but a well-established market specializing in ESG with a globally respected regulator will help Singapore to be at the forefront.

# SOUTH KOREA

## Moves to open market for foreign investors amid sharp rise in shareholder activism

Across Asia, the fund management sector took a battering last year, but nowhere more so than in South Korea which saw $10.8 billion (KRW 14.23 trillion) in net outflows during the first 11 months of the year. [39] Inflationary pressures and rising interest rates hit equities and fixed income values leading to an exodus from funds into safer choices, such as term deposits in banks.

However, while the local markets slumped and fixed income funds accounted for the bulk of the outflows last year, South Korea's bond market overall did manage to expand 4.5% year-on-year to $2.3 trillion (KRW 2,698 trillion) at the end of 2022.[40] Alongside, the number of listed stocks grew to 666, a 25% increase from December 2021.

The drivers of the decline in the South Korean markets were similar to those elsewhere in the region: inflation, rising interest rates, economic slowdown and geopolitical uncertainty. Yet the loss of confidence was partly self-inflicted, such as through overly aggressive investments during the pandemic. Also, there were a number of high-profile cases involving the mis-selling of products and fraud.

The fallout from that was not one-hundred percent bad, however, as it did help turn the spotlight on the exchange-traded funds (ETFs), which grew in appeal. It also saw a sharp rise in investor activism, with shareholders actively suing companies over their shareholder rights and for greater transparency and disclosure.

## Increasing investor activism launched by domestic fund houses and investors

According to South Korea's Financial Supervisory Service (FSS), there were 88 lawsuits issued against domestic listed companies as of March 21 this year, 60% more than a year earlier. Most of these lawsuits were initiated by minority shareholders and activist investors.

Unlike in the past when such activism was frowned upon, shareholder activism is now viewed as a way to increase a company's performance and, by extension, its valuation. It can involve shaking up murky ownership structures or stingy shareholder return policies.

What's also different from the past is that the drive for change is coming mostly from within South Korea this time, rather than foreign investors trying to upset the status quo from the outside – around three-quarters of activist campaigns in 2022 were launched by funds or fund managers based in South Korea. [41]

The rising confidence of activist investors in Korea is very evident and some say that this increased activism may help narrow the "Korea discount," in which refers to Korean stocks trading at an average 16% discount compared to other emerging markets, mainly due to low shareholder returns and corporate governance issues. [42]

New government policies intended to improve corporate governance and market regulation, such as improving shareholder protections during spinoffs and making investment easier for foreign entities, have also made Korean stocks more attractive to long-term foreign investors.

## ETF continues to rise

Meanwhile, the ETF market is expected to remain a popular option among retail investors. Total assets in the local ETF market were estimated at $59.2 billion (KRW 78.5 trillion) in December 2022, up 6.1% from 2021. ETFs accounted for a third of the overall transactions on the KOSPI last year, up 8.9% from 2021.

The number of asset management companies dealing in ETFs grew from 18 to 23, making for fierce competition which put a squeeze on commissions. The lower commissions on transactions – 0.1% versus 0.5% to 0.7% on traditional funds – have seen fund managers' revenues decline.

## Internationalization of South Korean market: opportunities and challenges

Owing to the mis-selling and fraud in the asset management industry, the FSS has taken action to enhance investor protection and examine existing regulatory frameworks. As part of that, it has called for qualitative growth in asset management companies, pledging support where possible. To support that, the FSS has announced faster licensing procedures, fund evaluating services, and disclosure standards for ESG funds.

While looking to better serve domestic investors, South Korea is also easing regulations on its financial markets to attract more foreign investors and achieve its goal of having MSCI developed market status, which would help boost foreign fund flows into the local market. The country is classified as an emerging market by MSCI because of its refusal to allow offshore trading in the Korean won and its difficult registration process for foreign investors. [43]

South Korea's ban on foreign investors participating directly in the local forex market is expected to be lifted soon, while plans are also afoot to scrap complicated registration requirements for foreign investors wanting to trade Korean stocks.

As well, the government plans to make it mandatory for listed companies with more than $8.1 billion (KRW 10 trillion) in assets to file important regulatory filings in English from 2024. The objective is clearly to make the country's capital markets more accessible for foreign investors.

Elsewhere, South Korea is working to have its bonds included in the World Government Bond Index, while the index provider FTSE Russell has added the country to its watch list for possible inclusion in the index in September.

With regard to cryptocurrencies, South Korean government is tightening regulations following several large crypto-exchange hacks. From 2021, all crypto service providers are required to register with the Korean Financial Services Commissions and comply with anti-money laundering regulations. However, there is still a long way to go. Crypto assets are not legal tender in South Korea, but the Bank of Korea is reviewing the introduction of a central bank digital currency (CBDC). There is also a push to make Busan, Korea's second-largest metropolis, a global crypto hub.[44]

The measures being taken to open the market up, combined with the rise in shareholder activism, are expected to boost flows into ESG funds. The FSS's push to increase ESG disclosure standards, along with the international sustainability disclosure standards to be launched later this year, will give the sector fresh impetus.

Currently, AUM in ESG equities funds are estimated at $1.36 billion (KRW 1.8 trillion), while for ESG fixed income funds it ranges between $1.13 billion (KRW 1.5 trillion) and $2.11 billion (KRW 2.8 trillion).

# SURVEY FINDINGS

- TRUE Global Intelligence, the in-house research practice of FleishmanHillard, conducted an online survey among 1,000 investment, finance and banking professionals in four markets (Mainland China, Hong Kong, Singapore, and South Korea) between April 4 and April 11, 2023.
- All respondents to the survey have traded or invested in at least one of the following:

| | Total | Mainland China | Hong Kong | Singapore | South Korea |
|---|---|---|---|---|---|
| Equities funds | 67% | 72% | 71% | 49% | 74% |
| Fixed income funds | 56% | 70% | 62% | 60% | 32% |
| ETFs | 45% | 53% | 39% | 44% | 45% |
| Alternatives | 23% | 34% | 23% | 19% | 16% |
| Balanced funds | 38% | 54% | 49% | 30% | 18% |
| PE funds | 28% | 44% | 26% | 24% | 15% |
| Digital assets or cryptos | 39% | *0% | 48% | 48% | 61% |

★ Not asked in mainland China

# HIGHLIGHTS

## Asia

- Equities funds (67%) and fixed income funds (56%) remain the top two most frequently traded/invested products in Asia in 2022. However, compared to 77% and 57% investors who said they had traded/invested in equities funds and fixed income funds respectively a year earlier, Asian investors said they are diversifying their investments to build resilience into their portfolios.
- Balanced funds (38%), PE funds (28%) and alternatives (23%) have gained more traction in the past year.
- Investors in Asia also have a growing interest in income funds (32%), balanced funds (29%), PE funds (23%) and quantitative funds (20%) over the next 12 months.
- The AI and crypto craze among Asian investors is spurring asset managers in the region to seize opportunities in AI funds (50%) and cryptocurrency-related products (31%) - only 3% investors in the region said they are not interested in new investment-themed products.
- Investors in Asia continue to chase after new economy sectors, notably the AI sector (50%), followed by internet and technology (40%) and biotechnology and healthcare (38%). ESG-related investment opportunities (34%) and cryptocurrencies (29%) are two other sectors to watch out for this year.
- Inflation and stagflation (50%) are viewed as the biggest financial risk in Asia, while Asian investors view the collapse of Silicon Valley Bank (SVB) as having only limited contagion risk in the region.
- Investors in South Korea (34%) and mainland China (29%) are more risk averse and are tending to shift their investments into lower risk options, with only those in Hong Kong (31%) willing to move some of their investments into high-risk products.
- Performance (94%) and credibility (93%) continue to be the top two most important criteria for investors when they come to asset manager selection, but size of asset management house (90%) overtook service fee as the third major factor when choosing asset managers.
- Financial media remains the key channel of information for investors to obtain information about funds and investment products, but more investors in the region use social media to receive investment information than previously (43% in 2023, up from 33% in 2022). Social media outstrips the websites of fund houses (39%) and independent financial advisers (36%).
- Digital platforms have become mainstream vehicles for investors to purchase mutual funds, with a significant growth in investors in Singapore (76%) and Hong Kong (75%), and a steady number in mainland China (77%), saying that they have used these platforms to purchase mutual funds.
- Around half (47%) of investors in the region said they have used ChatGPT or other AI tools to select fund managers and help make investment decisions, but 54% of them added that ChatGPT is not helpful at all when it comes to investment decision making.
- Investors continue to expect overseas asset management house to deliver high transparency when communicating with their customers (90%). They also hope these global asset managers offer sophisticated risk management (89%) with high transparency in fees disclosure (89%).
- For ESG commitment, investors in the region expect asset managers to "walk the talk" when proxy voting in listed companies (88%), operated with transparency in ESG data and protocol (86%) and clear ESG goals and objectives (85%).

## Hong Kong SAR

- Hong Kong investors primarily traded/invested in equities funds (71%) and fixed income funds (62%), and are most interested in investing in the same types of funds for the next 12 months (64% and 43% respectively).
- Asset management house performance (93%) and credibility (93%) are most important for investors when selecting an asset manager.
- Post-Covid, 31% of investors are moving investments into higher risk assets, while more than a quarter (29%) retain the same risk threshold.

- Approximately one third (32%) consider inflation/stagflation to be the biggest financial risk.
- Highest interest lies in cryptocurrency products (48%) and AI funds (46%) for future investments.
- There is most interest to invest in the AI (52%) and cryptocurrency (43%) sectors.
- Nearly two thirds (65%) of Hong Kong investors are interested in investing in the APAC region, especially in Hong Kong (74%) and China A-shares (50%).
- Financial media (50%) and social media (46%) are used most for information on funds/investment products.
- YouTube (68%) and Facebook (60%) are most used.
- Most investors use online sources (56%) and nearly half use independent financial advisers (45%) for fund patronage.
- Digital platforms are used by three in four investors for fund patronage.
- Almost half (48%) of investors have used ChatGPT/AI tools, finding them easy (92%) and intuitive (79%).
- Transparent fee disclosure (89%) and communications (89%) are the most important offerings for overseas asset managers.

## Mainland China

- Mainland Chinese investors primarily traded/invested in equities funds (72%) and fixed income funds (70%), and are most interested in investing in the same types of funds for the next 12 months (65% and 56% respectively).
- Asset management house performance (92%) and size of asset management house (91%) are most important for investors when selecting an asset manager.
- Almost 3-in-4 (73%) of mainland Chinese investors have invested in funds run by overseas managers (up 23 pps), due to having more trust (55%) and the better track record (51%) of global brands.
- Post-Covid, 29% of mainland Chinese investors are moving investments into lower risk assets, while a quarter retain the same risk threshold.
- Over half (52%) consider inflation/stagflation to be the biggest financial risk.
- nterest is the highest in AI funds (62%) and thematic funds (48%) for future investments.
- The AI (53%) and healthcare/biotech (48%) sectors are of most interest for investment.
- Nearly two thirds (64%) of mainland Chinese investors are interested in investing in the APAC region, especially China A-shares (75%) and Hong Kong (58%).
- Fund house websites (46%) and social media (44%) are used most for obtaining information on funds/investment products.
- On social media, Weibo has gained popularity (79% vs 63% a year earlier).
- More investors are using independent financial advisors (53% vs 40% a year earlier) and insurance agents/brokers (48% vs 29% a year earlier).
- Digital platforms (77%) continue to be used for fund patronage for instant analysis and advice on asset allocations.
- Over half of investors (56%) have used ChatGPT/AI tools and found them intuitive (91%) and useful (87%).
- Transparency in customer communications and a strong ESG offering with clear goals and objectives continue to be an important part of the offering from overseas asset managers.

## Singapore

- Singapore investors primarily traded/invested in fixed income funds (60%) and equities funds (49%), and are most interested in investing in the same types of funds for the next 12 months (39% and 38% respectively).
- Almost half invested in digital assets/cryptos (48%).
- Asset management house credibility (95%) and performance (93%) are the two most important features for investors when selecting an asset manager.
- Post-Covid, 40% retain the same risk threshold.
- Almost half (46%) consider inflation/stagflation to be the biggest financial risk.

- Interest is the highest in cryptocurrency products (46%) and active ETFs (44%) for future investments.
- Internet/technology (43%), banking/finance (42%) and AI (42%) are sectors of the highest interest for investment.
- Nearly three quarters (72%) of Singapore investors are most interested in the APAC region for investment, especially in Singapore (78%) and Southeast Asia (36%).
- Financial media (55%) and social media (41%) are used most for information on funds/ investment products.
- For social media, YouTube (59%) and Facebook (42%) are most used.
- Just over half of the investors (51%) use online sources and nearly half (44%) use independent financial advisers for fund patronage.
- Digital platforms are used by 3-in-4 investors (76%) for fund patronage.
- Almost half (45%) of investors have used AI tools/ ChatGPT and found them easy (82%) and useful (86%).
- Transparent fee disclosure (90%) and customer communications (91%) are the most important offerings for overseas asset managers.

## South Korea

- South Korean investors primarily invested in equities funds (74%) and digital assets/cryptos (61%), and are most interested in investing in the same types of funds for the next 12 months (56% and 44% respectively).
- Asset management house credibility (96%) and performance (95%) are the most important features when they select an asset manager.
- Post-Covid, around one third (34%) are moving investments into lower risk options, while one third (33%) retain the same risk threshold.
- 70% consider inflation/stagflation to be the biggest financial risk.
- For future investment, most interest lies in AI funds (51%) and metaverse-themed products (31%).
- The AI (54%) and internet/technology (34%) are currently the sectors of the highest interest for investment.
- Over half (53%) of South Korean investors are most interested in the APAC region, especially in South Korea (61%) and Southeast Asia (45%).
- Financial media (64%) and social media (40%) are used most to obtain information on funds/investment products.
- On social media, over three-quarters (76%) use YouTube.
- Most investors are using online sources (66%), wealth managers (32%) and independent financial advisers (32%) for fund patronage the most.
- Around half (48%) of investors use digital platforms for fund patronage.
- Over a third (38%) of investors have used ChatGPT/ AI tools and found them easy (80%) and useful (80%).
- Sophistication in risk management and transparency in communication are most important offerings for overseas asset managers.

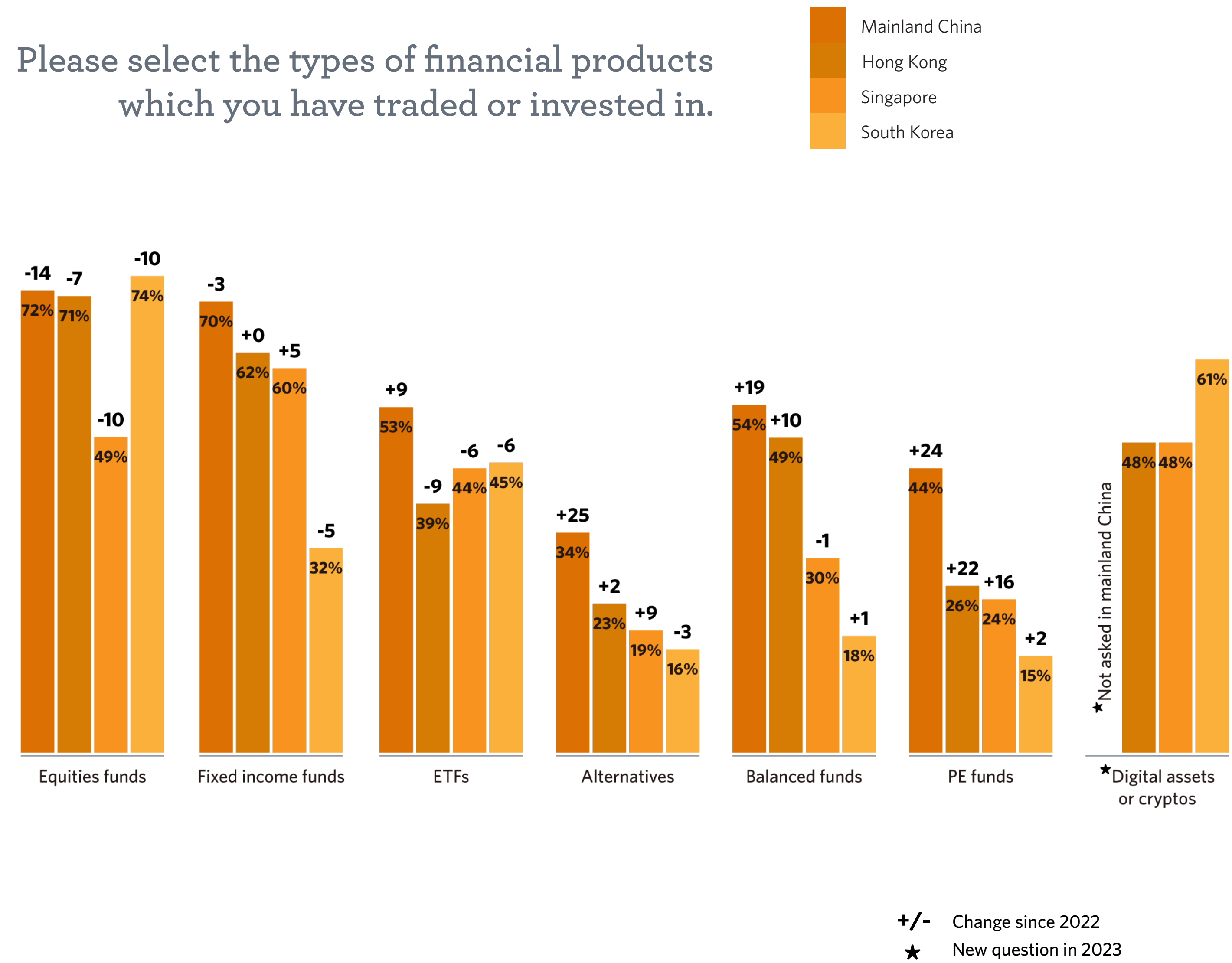
# SURVEY RESULTS

## Experience and outlook

Equities funds (67%) and fixed income funds (56%) remained the top two most frequently traded/invested products in Asia in 2022, but this was down from respectively 77% and 57% in 2021. The decline reflects a clear trend whereby investors across the region are diversifying their investment mix to build resilience to their portfolios.

Balanced funds (38%), PE funds (28%) and alternatives (23%) gained more traction with investors in the past year – up from 31%, 11% and 15% respectively from a year earlier. It is noteworthy too that ETFs experienced strong growth in mainland China in the past year as they provide investors with more diversified exposure to Chinese equities and relatively less risk than individual stocks. The momentum of ETFs in mainland China is expected to continue in 2023 as investors bet on a Chinese market revival.

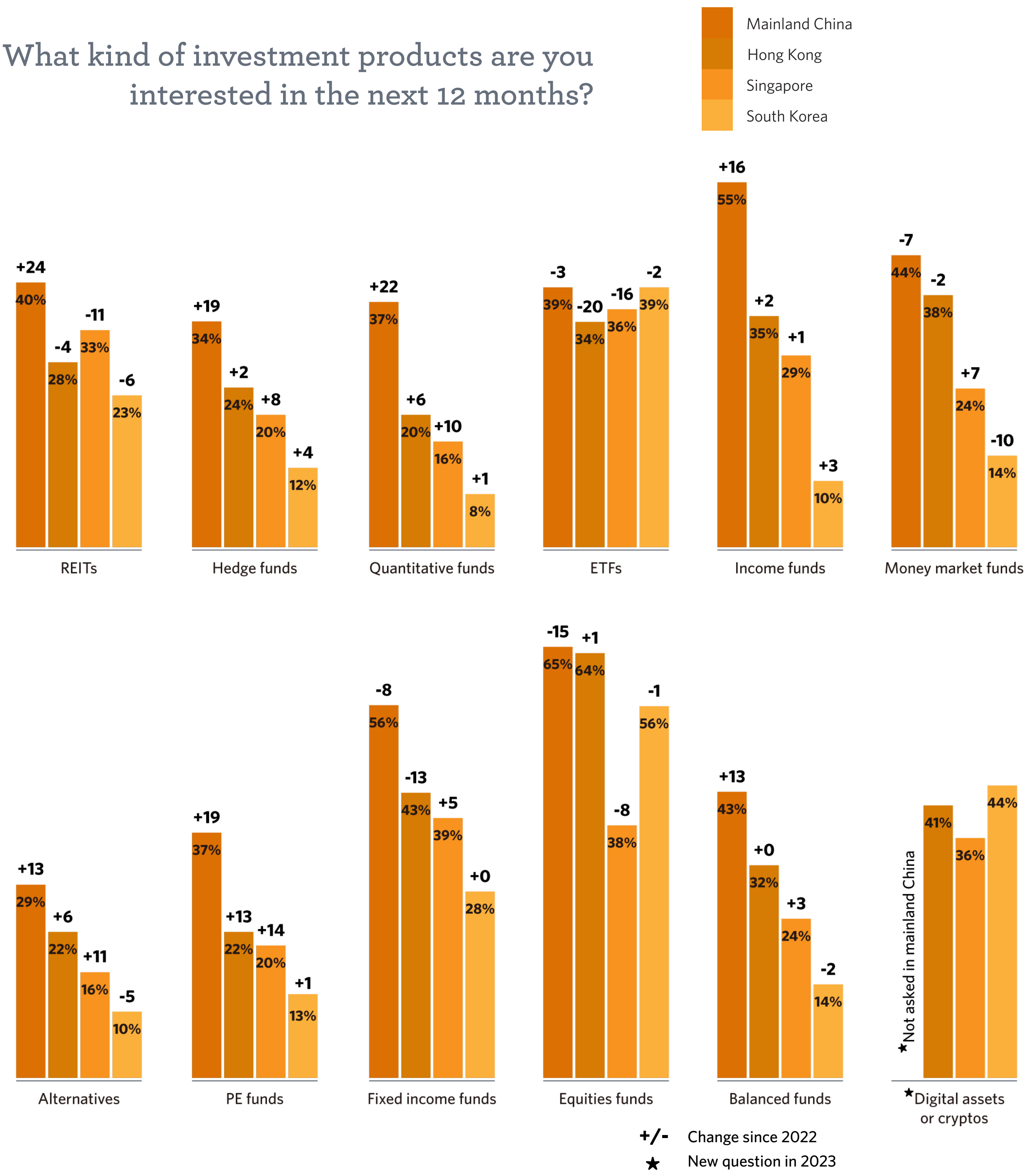
### Please select the types of financial products which you have traded or invested in.



After a tough year in 2022, investors are taking a more proactive approach to deliver growth and income in 2023. While across the region they continue to have a strong appetite for equities funds (55%) and fixed income funds (41%) in 2023, there is a growing interest in income funds (32%), balanced funds (29%), PE funds (23%) and quantitative funds (20%). Although ETFs are expected to retain their popularity in Asia, with ETFs ranking third after equities funds and fixed income funds, the percentage of investors who opted to invest in ETFs declined the not ther from 47% in 2021 to 37% in 2022.

Digital assets and cryptos, on the other hand, are growing into a mainstream asset class among affluent investors in Hong Kong, Singapore and South Korea with 40% of the investors in these three markets saying that they are interested in these for future investments.

## What kind of investment products are you interested in the next 12 months?

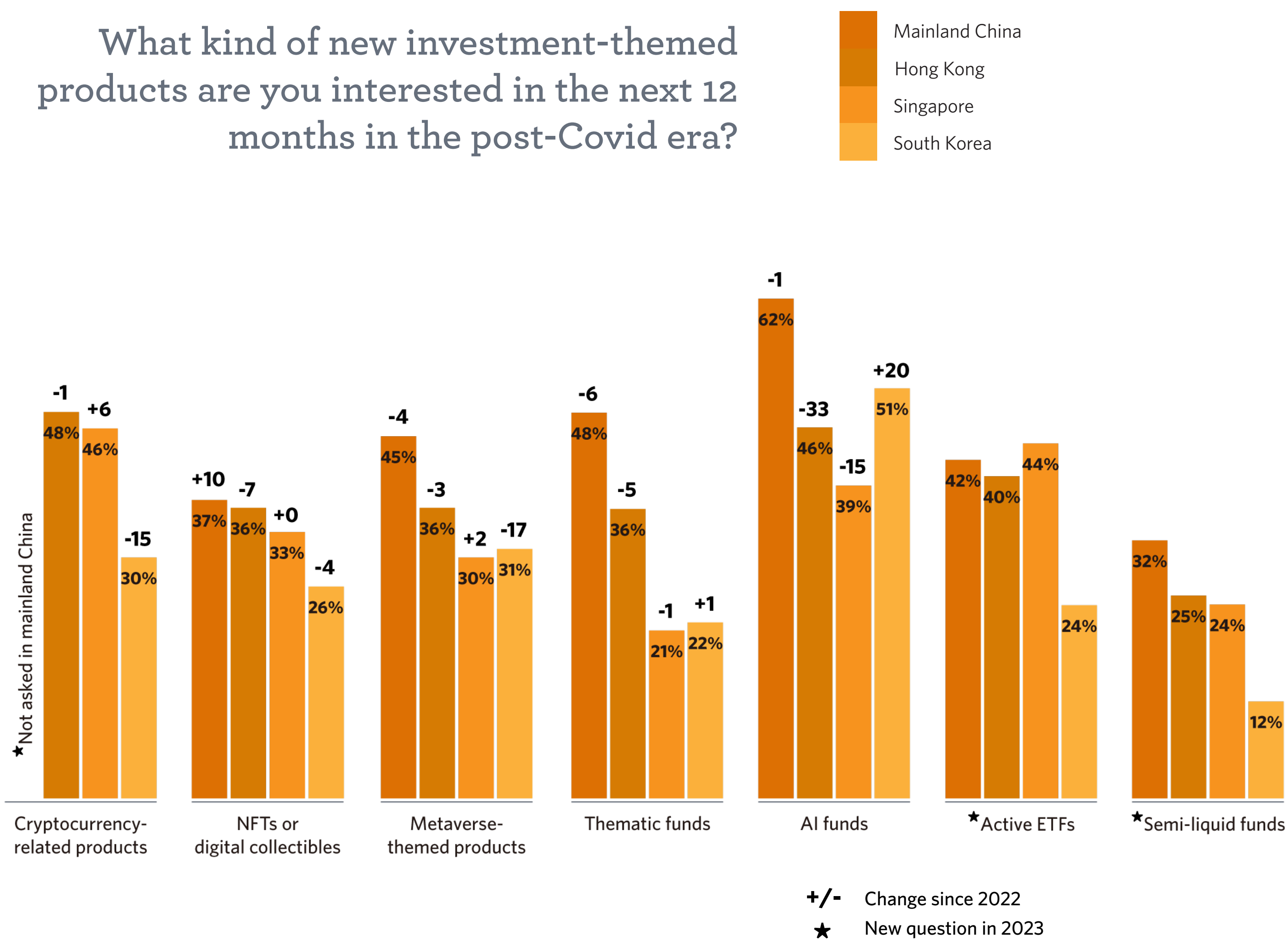


## Upcoming investment themes and regions

The AI and crypto craze among Asian investors is spurring asset managers in the region to seize opportunities related to AI funds (50%) and cryptocurrency-related products (41%) - only 3% investors in the region said they are not interested in these new investment-themed products. Compared to last year, Hong Kong investors are less interested in metaverse-themed products, thematic funds, and non-fungible tokens (NFTs) or digital collectibles investments, while investors in South Korea have a growing appetite in AI funds.

Among new investment-themed products, active ETFs have gained tractions among investors in mainland China, Hong Kong and Singapore mainly due to their liquidity and tax efficiency amid the changing market conditions, but they are less popular among South Korean investors. At the same time, investors across the region, especially in mainland China, have a growing appetite in semi-liquid funds, which provide a liquidity window to meet their investment objectives without compromising returns.

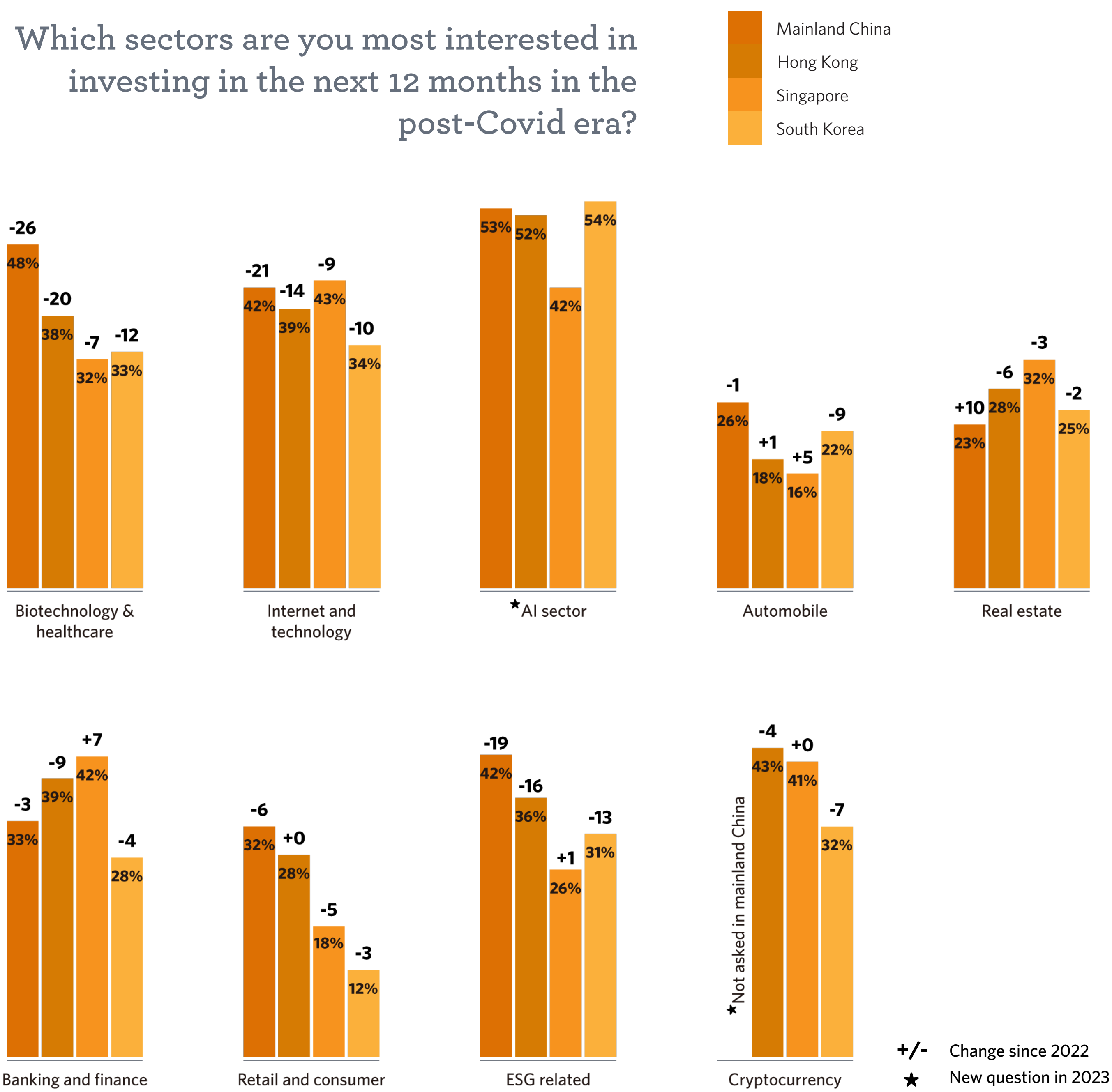
### What kind of new investment-themed products are you interested in the next 12 months in the post-Covid era?



Investors in Asia continue to chase after new economy sectors with the AI (50%) ranking first, followed by internet and technology (40%) and then biotechnology and healthcare (38%). ESG-related investment opportunities (34%) and cryptocurrency (29%) are two other closely watched sectors among investors in the region, which continue to rank highly in this year's survey.

Although the real estate sector has fallen out of favour, signs of stabilization in mainland China's property market have renewed interest among mainland Chinese investors thanks to the low-base in the prior-year period. Singapore investors, on the other hand, show growing interest in the banking and finance sector due to its positive performance and the strong free cash flow generation it offers.

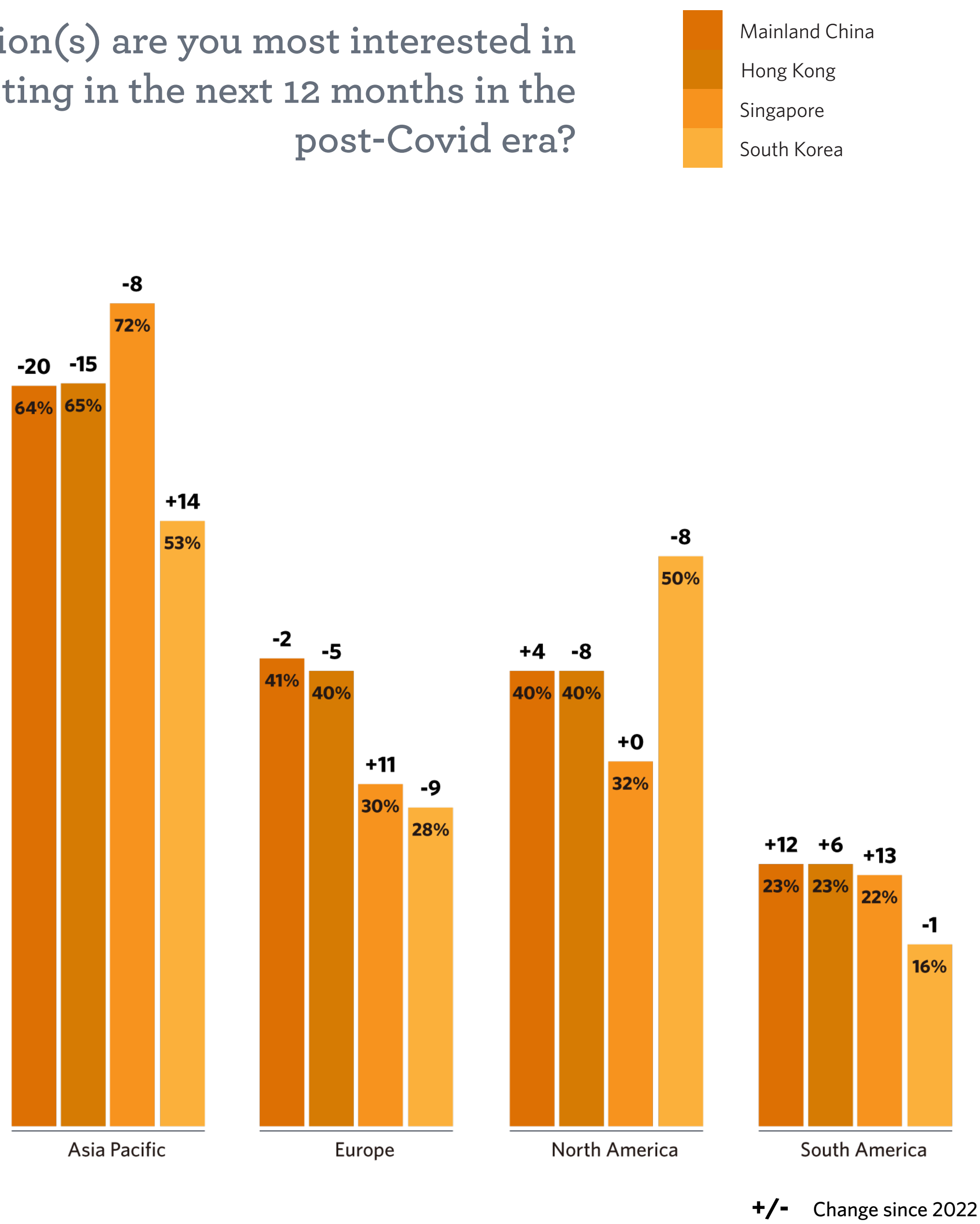
## Which sectors are you most interested in investing in the next 12 months in the post-Covid era?



Investors in the four markets examined continue to show a strong preference for investing in the region they know best, Asia Pacific, with most of the respondents saying that they are most interested in their own local markets.

Economic headwinds in Europe and recession risk in the US contrast with some encouraging signs in APAC. These signs include a more rapid reopening of mainland China since the start of the year, slowing rates of inflation in some parts of the region, and improving stock market performance.

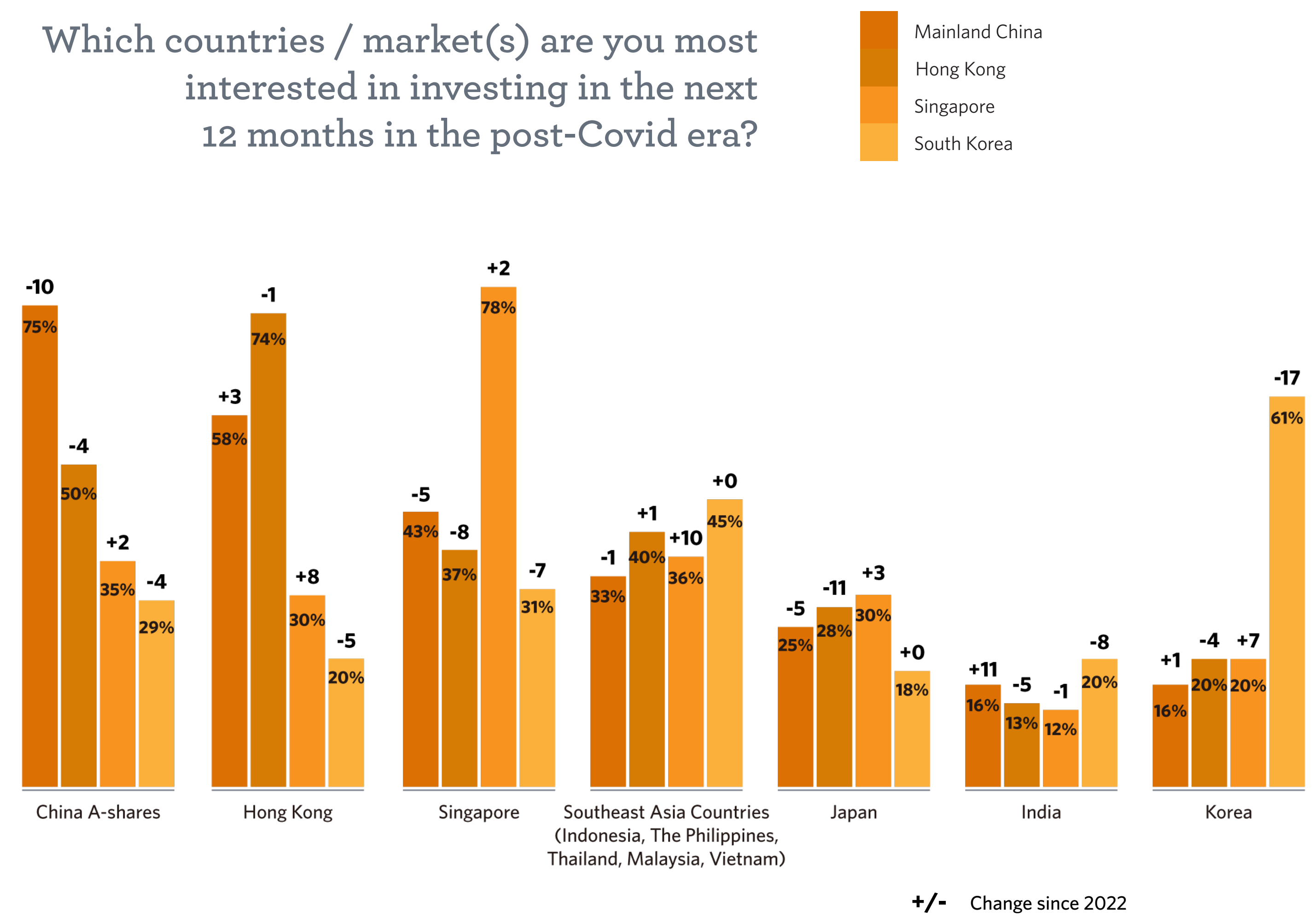
## Which region(s) are you most interested in investing in the next 12 months in the post-Covid era?



It means investors continue to allocate a significant portion of their investment in APAC over other markets, particularly for investors in Singapore (72%). That said, the survey findings show that Singapore investors are looking to diversify their asset allocation with an increasing interest in the European and South American markets.

For South Korean investors, although they said they will allocate more investment to APAC (53%) in the coming year, they stay keen to invest in North America (50%). While APAC continues to be the key market for investment from Hong Kong and mainland China, investors in these markets show a growing interest in South America, with mainland Chinese investors also having appetite for the North America market.

## Which countries / market(s) are you most interested in investing in the next 12 months in the post-Covid era?

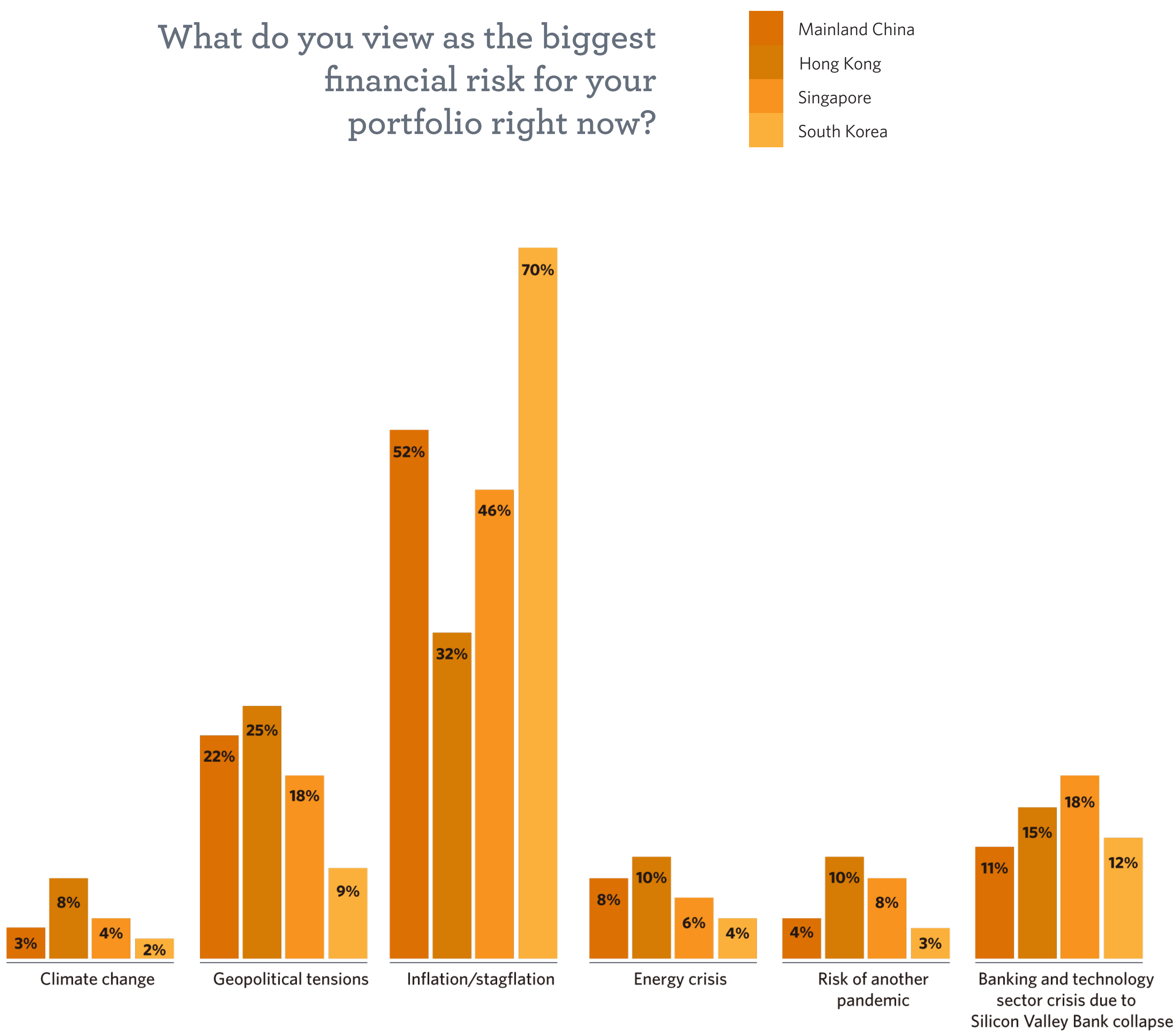


## Upcoming risks

Inflation and stagflation (50%) are viewed as the biggest financial risks across all four APAC markets followed by geopolitical tensions. Investors are particularly concerned that some markets in the region, such as South Korea and mainland China, could both enter a period of stagflation.

On the other hand, the collapse of SVB, which played a vital role in providing financial services to many of the innovative, high-growth companies in the technology sector, also brought worries to Asian investors (14%). But they appear to have digested the news and believe the region faces limited contagion risk. Compared to other parts of the world, investors in Asia are also less concerned about the financial risks associated with the climate change.

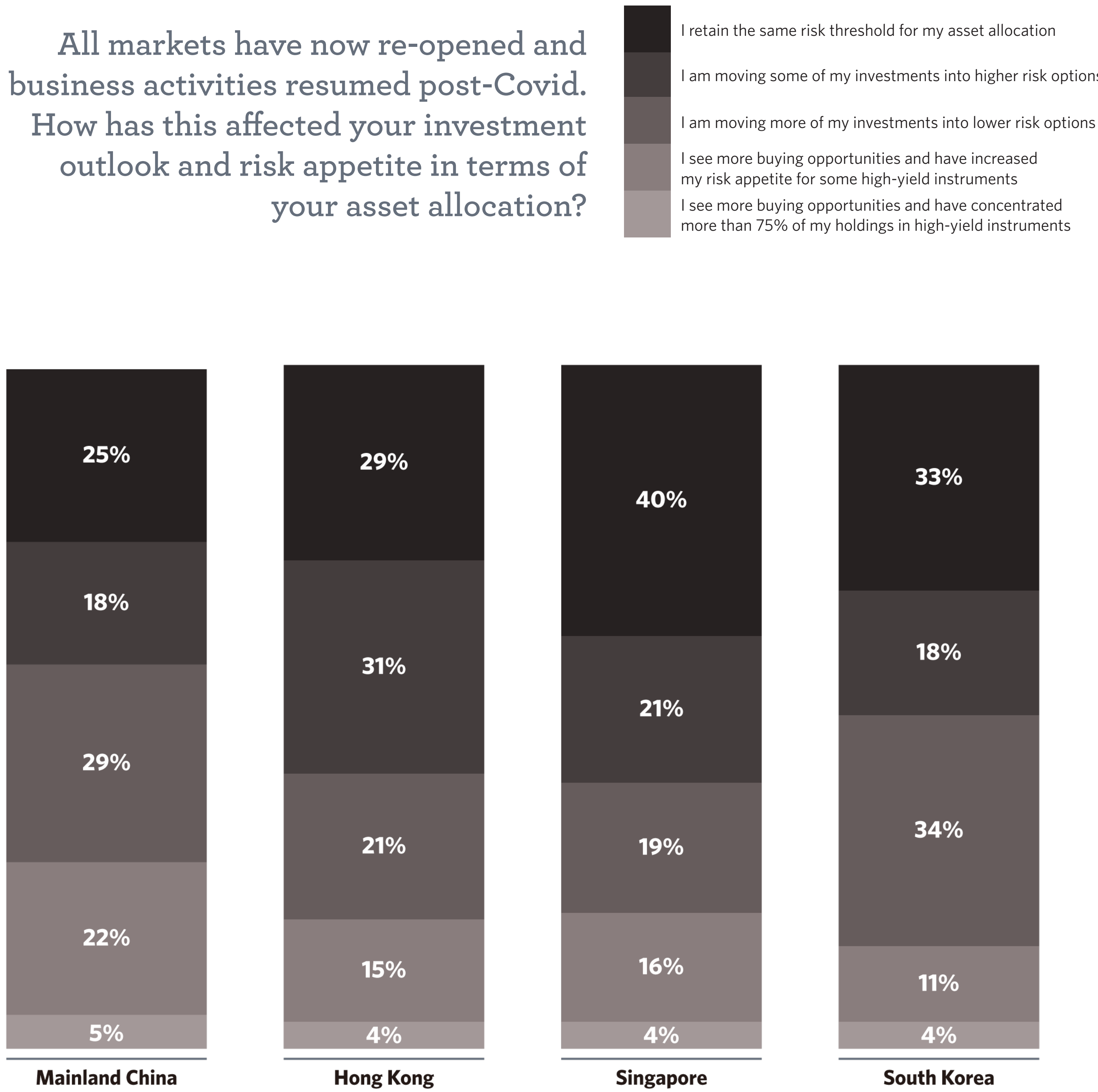
### What do you view as the biggest financial risk for your portfolio right now?



Although most markets in Asia reopened in 2023 and business activities resumed, investors in South Korea (34%) and mainland China (29%) have shown themselves to be more risk averse, shifting their investments into lower risk asset classes.

In Singapore, one of the first markets in the region to reopen back in 2022, 40% of investors have left their risk profile unchanged for their asset allocations. On the contrary, 31% of investors in Hong Kong are willing to move some of their investments into higher risk instruments.

## All markets have now re-opened and business activities resumed post-Covid. How has this affected your investment outlook and risk appetite in terms of your asset allocation?

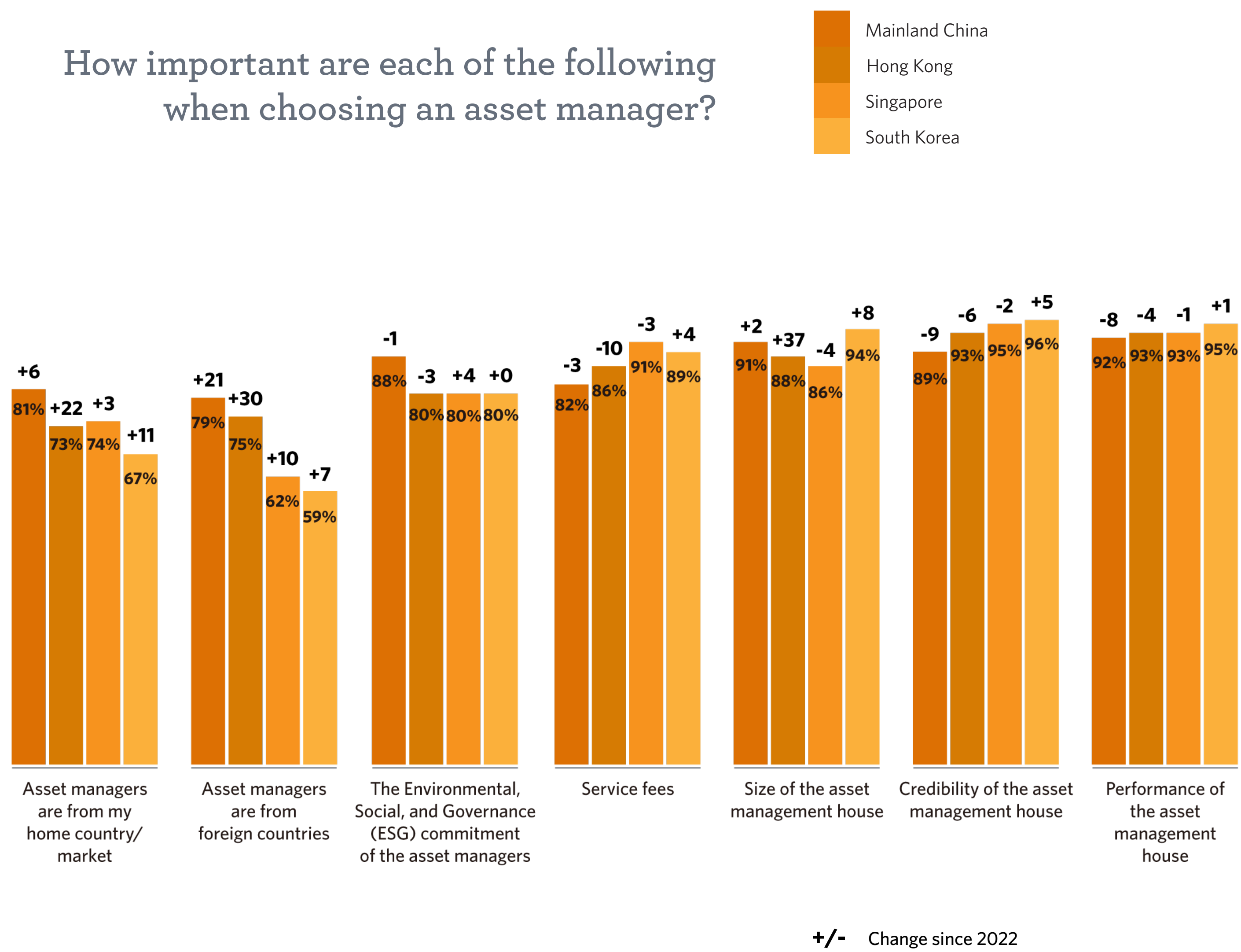


## Thoughts on global asset managers

Performance (94%) and credibility (93%) continue to be the top two most important criteria for investors when selecting an asset manager. While service fees also remain one of the major considerations when choosing an asset manager, investors in Hong Kong, South Korea and mainland China expressed growing interests in the size of asset management house, probably because severe market volatility places a heavier strain on asset managers. In short, size matters.

The ESG commitment of asset managers (82%) continues to rank highly as most investors in APAC believe ESG plays an essential role nowadays. In developed countries within APAC, ESG is one of the most important requirements within investment strategies. The upcoming global ESG reporting and disclosure standards later this year are expected to help increase the level of ESG adoption and drive growth in this sector.

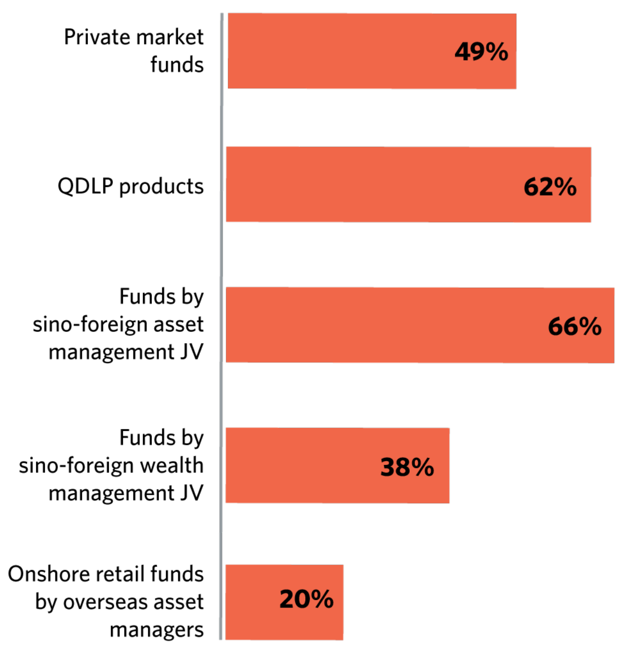
## How important are each of the following when choosing an asset manager?



## Focus on Mainland China

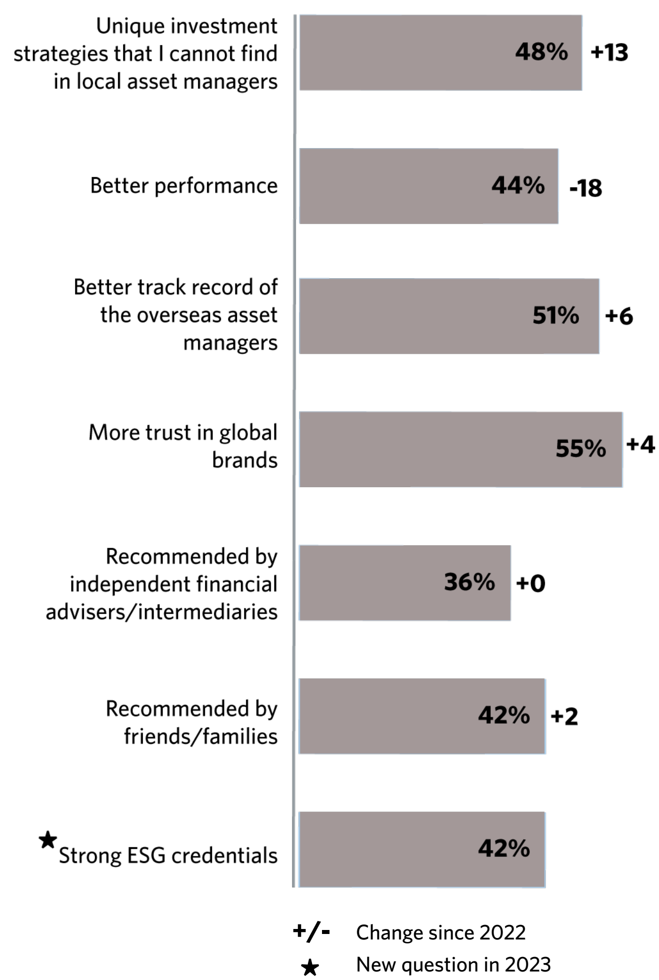
Zooming in on mainland Chinese investors, 73% of the respondents said that they have invested in local fund products run by overseas asset managers, up from 50% a year earlier. Most of the mainland Chinese investors who have purchased products from overseas asset managers said that they have more trust in global brands (55%). While just over half (51%) of them noted that these overseas asset managers have better track record, nearly half (48%) added that overseas asset managers can offer unique investment strategies that they cannot find among local players.

### Types of funds invested




**73%**
**(+23 pps)**
of mainland Chinese investors have invested in local fund products run by overseas asset managers

### Reasons to purchase from overseas asset managers



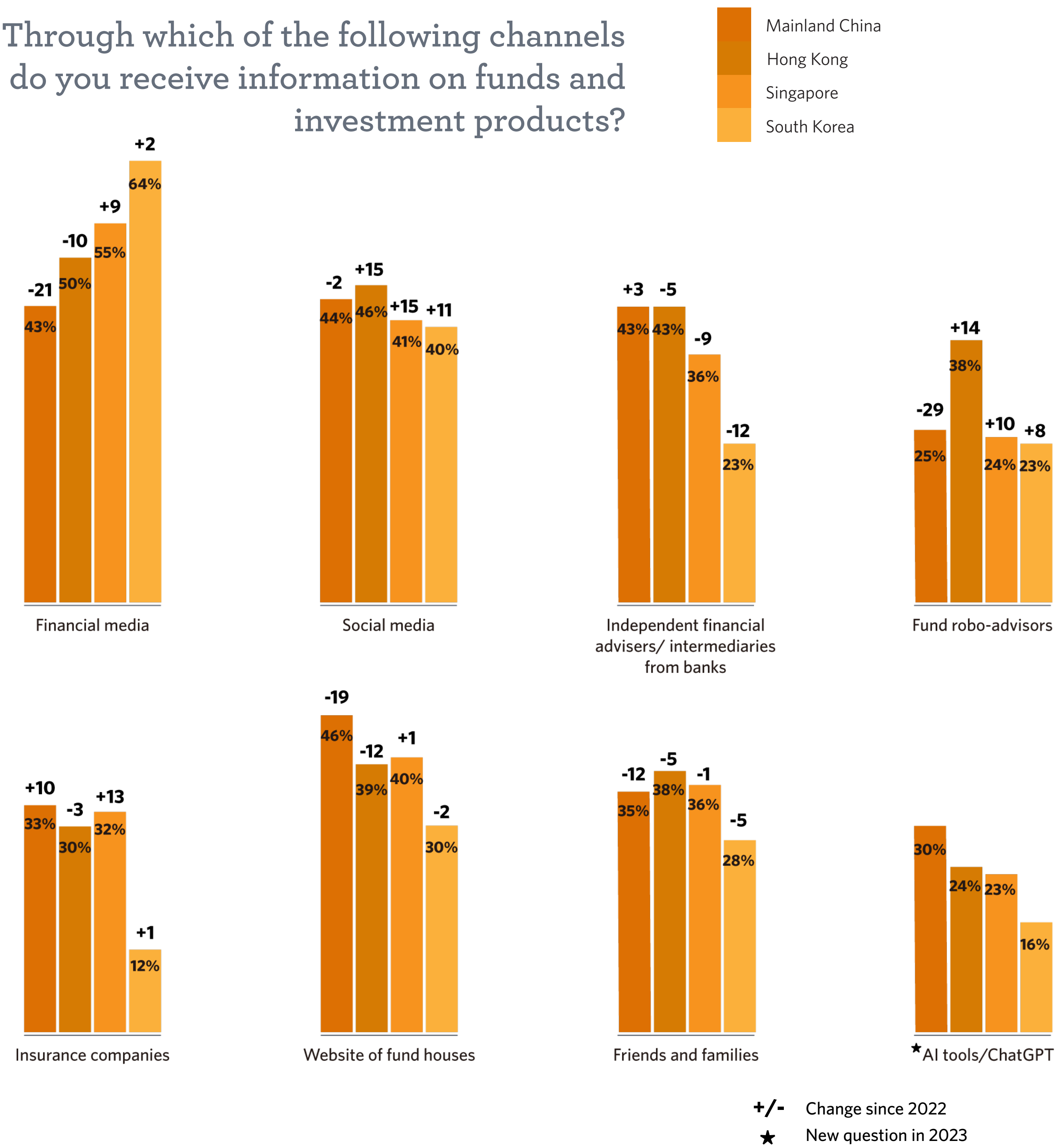
## Information sources

While we live in the era of information overload, it is noteworthy that financial media remains the key source for APAC investors about funds and investment products. However, it is interesting that an increasing number of investors in the region use social media platforms to receive relevant information (43% in 2023 vs 33% in 2022), outpacing the websites of fund houses (39%) and independent financial advisers (36%) which ranked second and third respectively a year earlier.

The rise of social media has struck a chord with asset managers in the region, which are enhancing their presence and share of voice among social media platforms. They share valuable insights on investment trends and customers' preferences in order to raise their profiles.

One fun fact is that mainland Chinese investors are the most willing to accept AI tools or ChatGPT to access fund or investment product information. These tools are less popular among South Korean investors.

### Through which of the following channels do you receive information on funds and investment products?

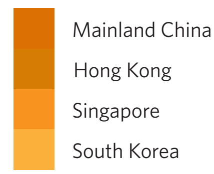


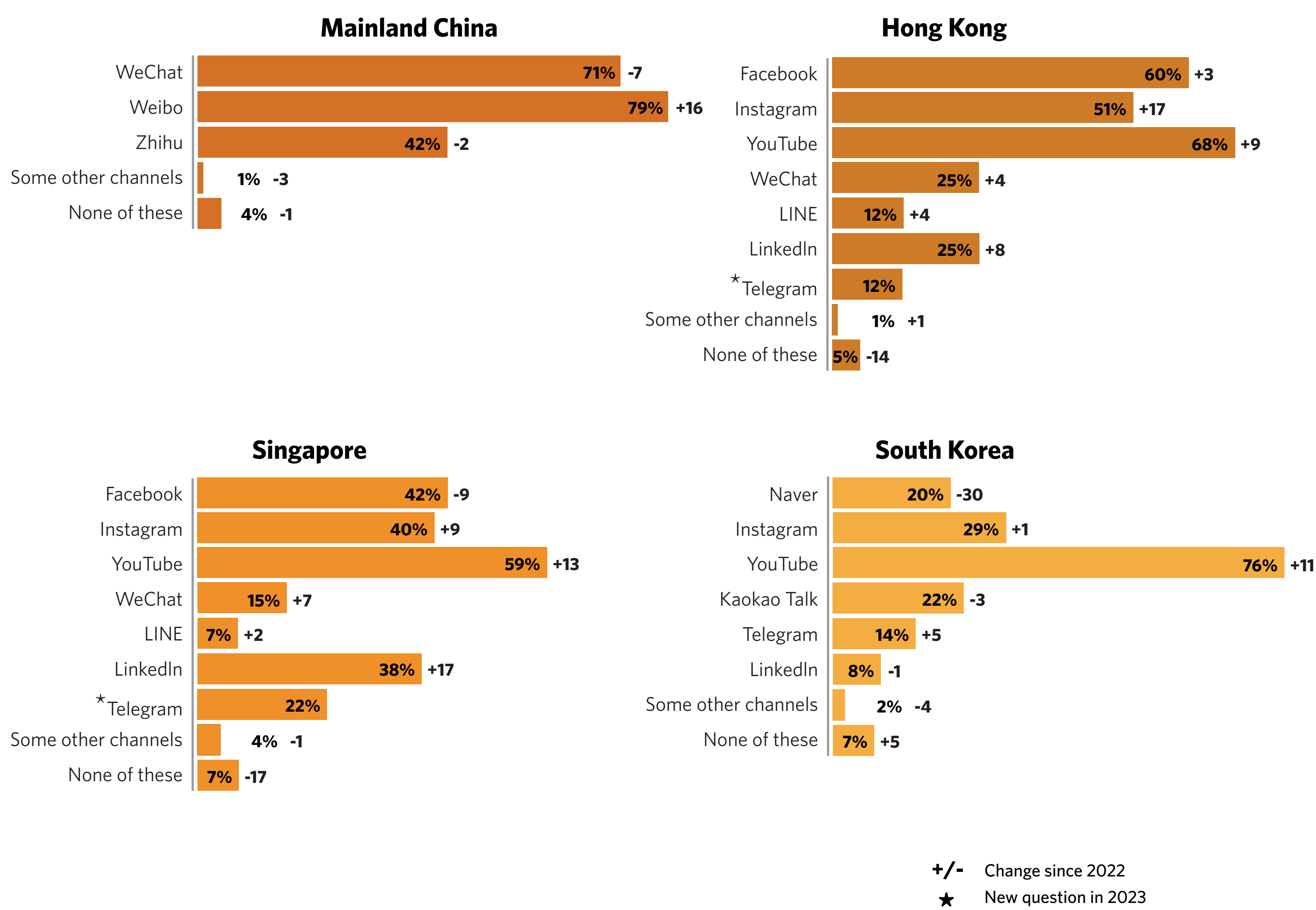
Interestingly, more mainland Chinese investors said that they use Weibo (79%) to access fund information more frequently than WeChat (71%), respectively up from 63% and down from 78% a year earlier.

Another interesting phenomenon is that YouTube has outpaced Facebook to become the top social media platform for investors outside of mainland China.

This finding underscores that asset managers should prioritize visuals and add video elements when sharing product or corporate information on their social channels, as high quality visuals and video content increases viewer engagement and can spark investors' interest.

## Through which social media platform(s) do you access fund information?

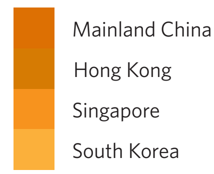


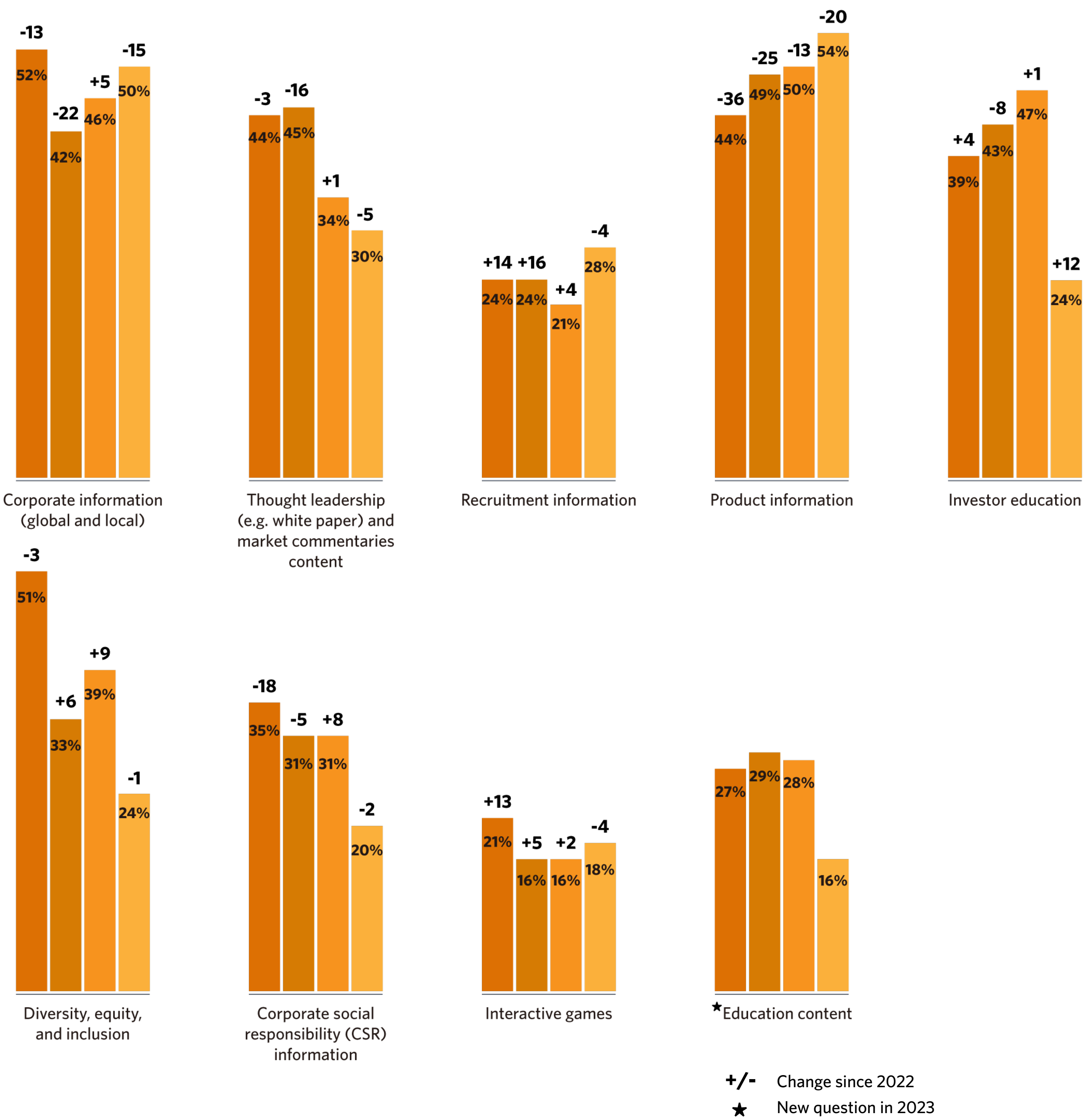



Product information (49%) and corporate information (48%) are most sought after on the social media channels of asset managers. At the same time, investors frequently look for thought leadership articles (38%) and information related to investor education (38%) through social media channels.

Meanwhile an increasing number of investors in South Korea and mainland China also seek investor education information from social media platforms. For asset managers that make more efforts to create educational content, it is an effective way to elevate their brand in front of target audiences.

## What type of information do you typically look for from the social media channels of asset managers?



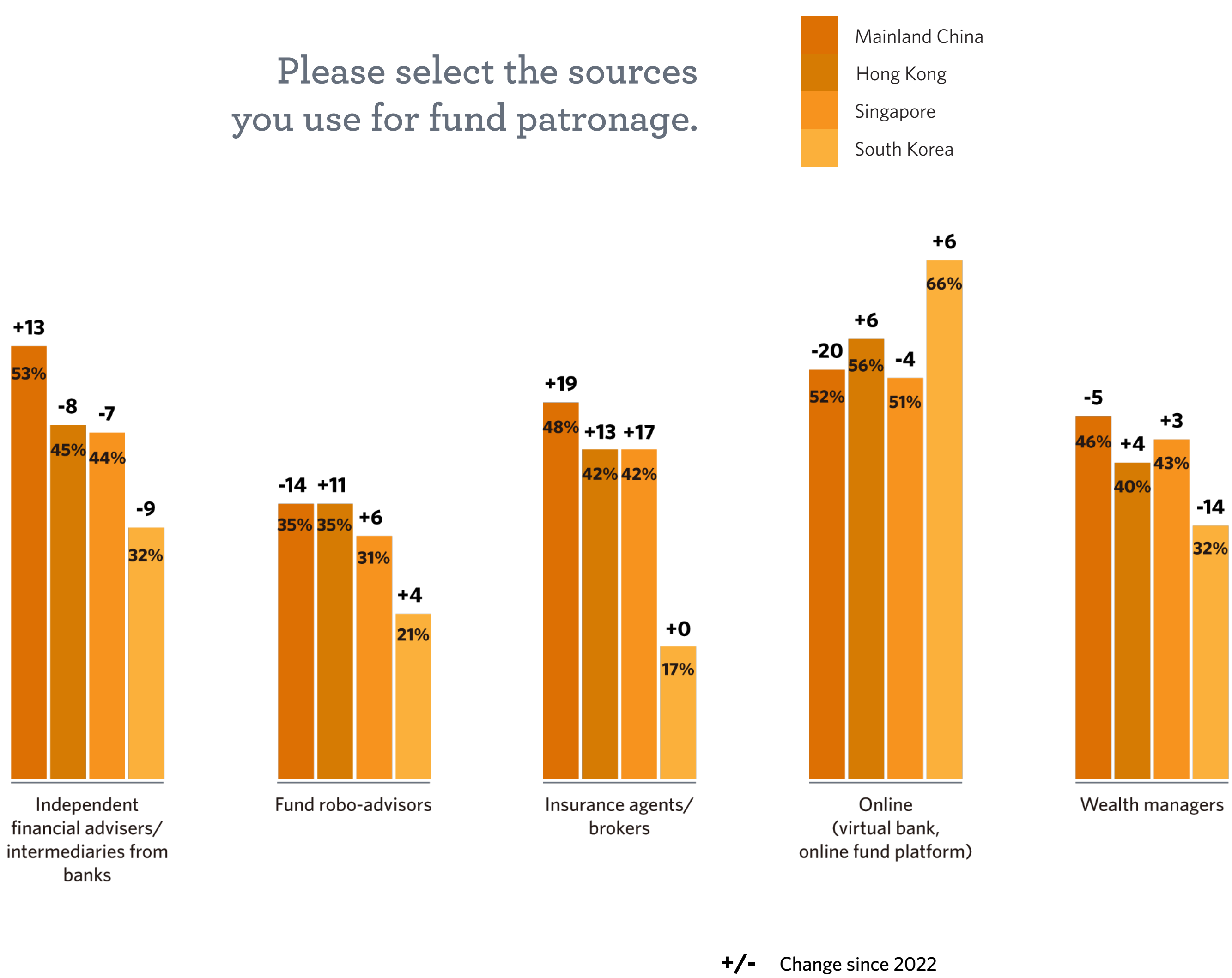
## Fund patronage

More than half of the investors covered in the survey use virtual banks or online fund platforms to access their fund products. Similar to last year, these online methods are the most popular among Asian investors (56%) for fund patronage. Independent financial advisers or bank intermediaries continue to be important (43%), alongside wealth managers (40%).

Last year's report wondered if investors would move away from face-to-face interaction and become more comfortable with online channels. In some markets there is a greater willingness to change than in others, but it is evident that a substantial number of investors prefer to receive expert advice with in-person meetings, particularly now that the pandemic is easing.

While virtual banks and online fund platforms have grown in popularity among South Korean investors, their counterparts in mainland China, Hong Kong and Singapore shifted their information sources to insurance agents/brokers (37% in 2023 vs 25% in 2022), indicating that investors in these three markets tend to get more expert guidance when making investment decisions. Mainland Chinese investors are also moving away from fund robo-advisors (35% in 2023 vs 49% in 2022), although robotic fund advisors have gained popularity among Hong Kong and Singapore investors (up 11 pps and 6 pps to 35% and 31% respectively).

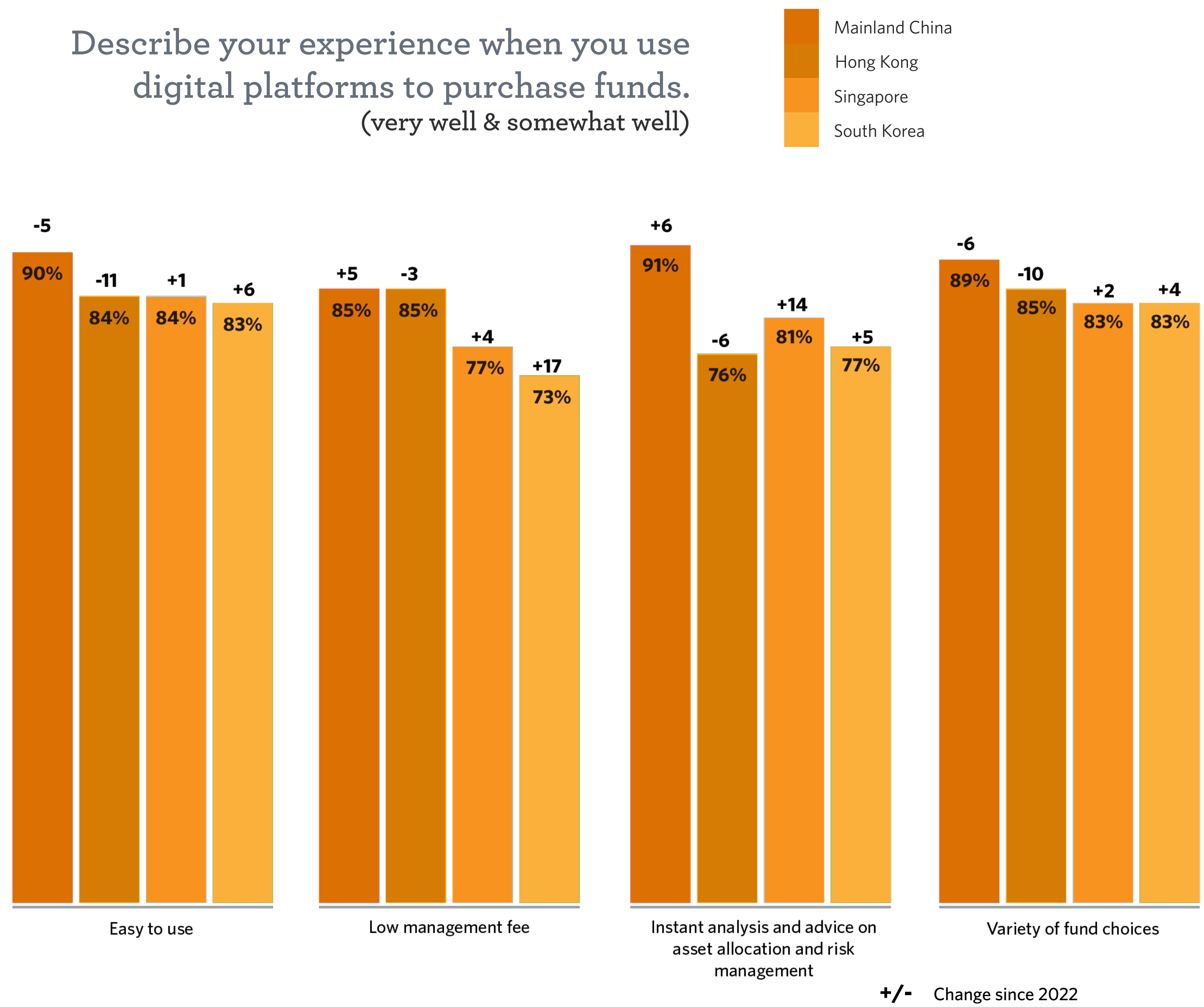
### Please select the sources you use for fund patronage.



However, digital platforms are now a mainstream way for investors to purchase mutual funds – more than three quarters of investors in Hong Kong (75%), Singapore (76%) and mainland China (77%) said they have used digital platforms to purchase such funds – representing a significant growth in Singapore (up 27 pps) and Hong Kong (up 14 pps). Although South Korean investors' use of digital platforms to purchase mutual funds lags behind the other three markets, nearly half the South Korean respondents (48%) have experience in using such platforms for mutual funds because they are easy to use and offer a variety of fund choices – up from 38% in last year's survey. Investors in South Korea also appreciate the low management fees offered by these digital platforms, an increasingly important reason for them to shift online.

## Describe your experience when you use digital platforms to purchase funds.

(very well & somewhat well)




**77%** (-2 pps) Mainland China

**75%** (+14 pps) Hong Kong

**76%** (+27 pps) Singapore

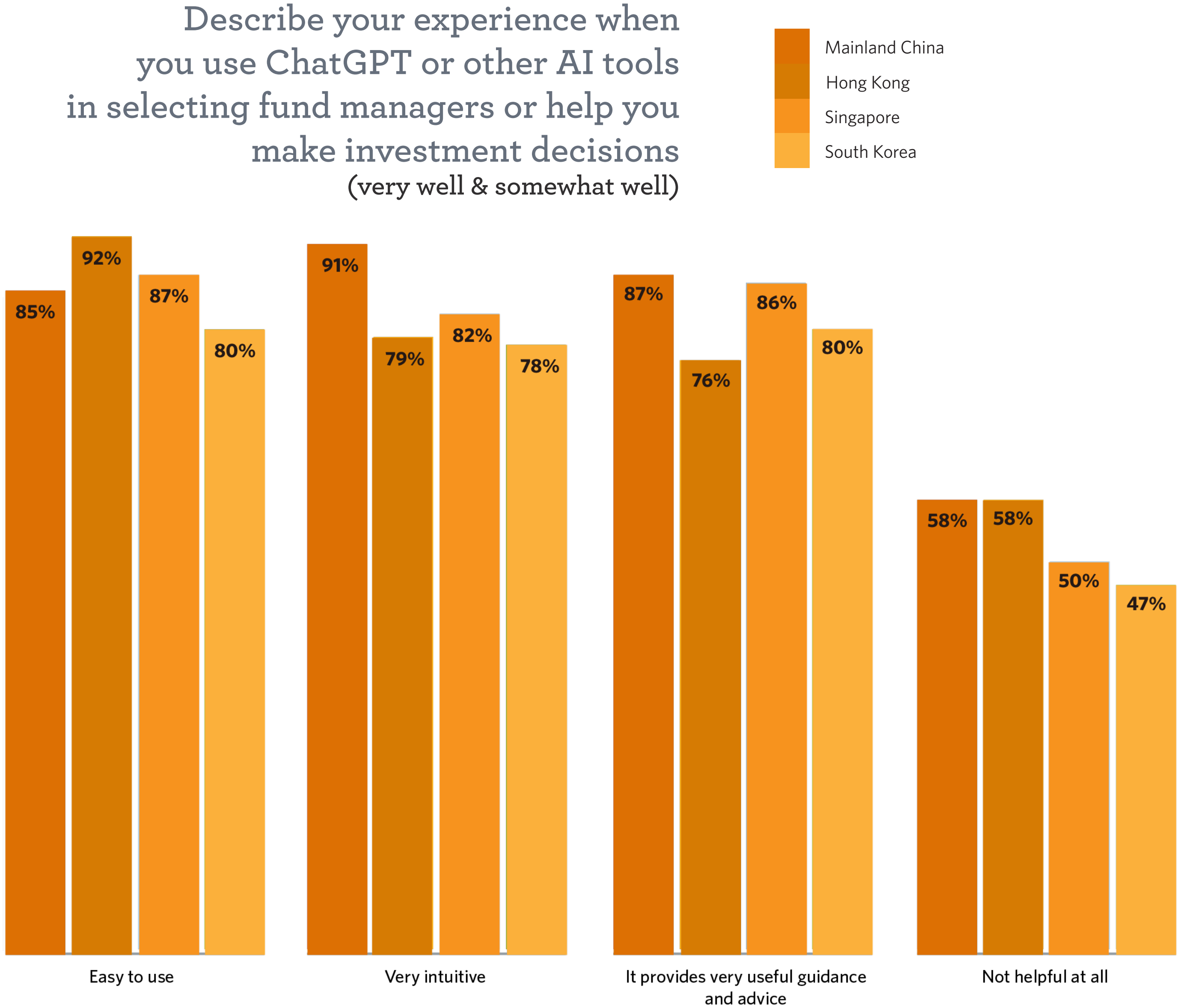
**48%** (+10 pps) South Korea

of investors have used digital platforms to purchase mutual funds

With the launch of ChatGPT in the final quarter in 2022, the survey looks at how investors perceive this emerging tool. More than half of mainland Chinese investors (56%) said they have used ChatGPT or other similar AI tools for making investment decisions, followed by investors in Hong Kong (48%) and Singapore (45%). South Korean investors (38%) are generally less likely to use new technology when making serious investment decisions.

However, it is interesting that although many investors who tried ChatGPT or similar AI tools found them easy to use (86%), and able to provide useful guidance and advice (82%), over half of the respondents (54%) found that these tools are not helpful at all for investment decisions. Although many decision makers use big data and AI algorithms to analyze market trends and identify potential risks and opportunities, it is still to be seen if ChatGPT or other AI tools will replace humans in making investment decisions.

## Describe your experience when you use ChatGPT or other AI tools in selecting fund managers or help you make investment decisions
(very well & somewhat well)




**56%** Mainland China **48%** Hong Kong **45%** Singapore **38%** South Korea

of investors have used ChatGPT or other AI tools to select fund managers or help make investment decisions

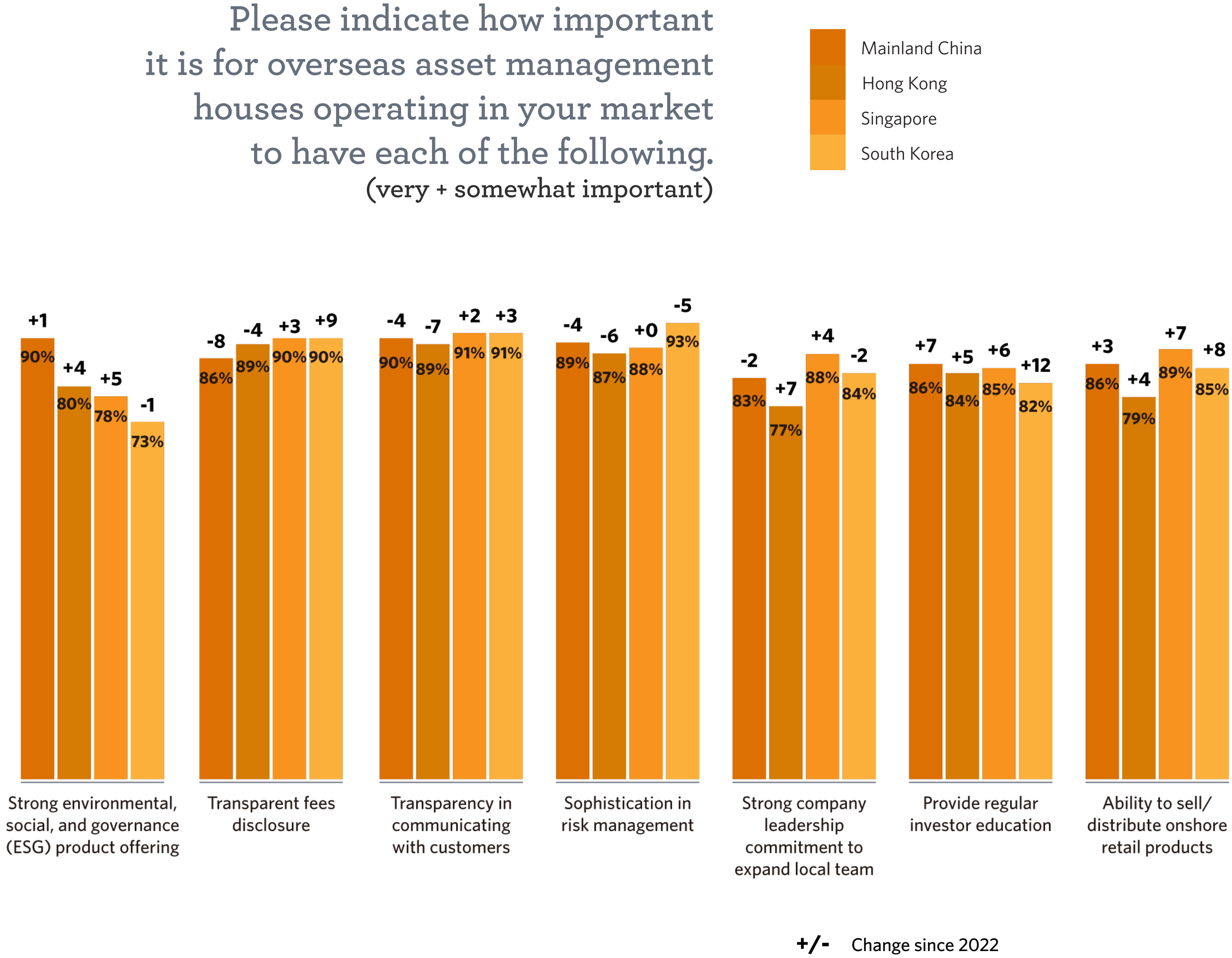
## Appealing traits and ESG

Investors in the region continue to expect overseas asset management houses to deliver high transparency when communicating with their customers (90%). They also hope these global asset managers are able to perform sophisticatedly in risk management (89%) with high transparency in fees disclosure (89%).

Elsewhere, increasing numbers of investors in the region see the importance of foreign asset managers' ability to distribute onshore retail products, which implies that investors put greater weight on assets managers' on-the-ground capabilities, their local offerings and their understanding of local markets.

The survey result once again highlights the high level of transparency foreign asset managers need to uphold when it comes to customer communication, especially around fees disclosure and risk management. Worth to note that over 90% of mainland Chinese investors rank higher those foreign asset managers with strong ESG product offerings.

### Please indicate how important it is for overseas asset management houses operating in your market to have each of the following.
(very + somewhat important)



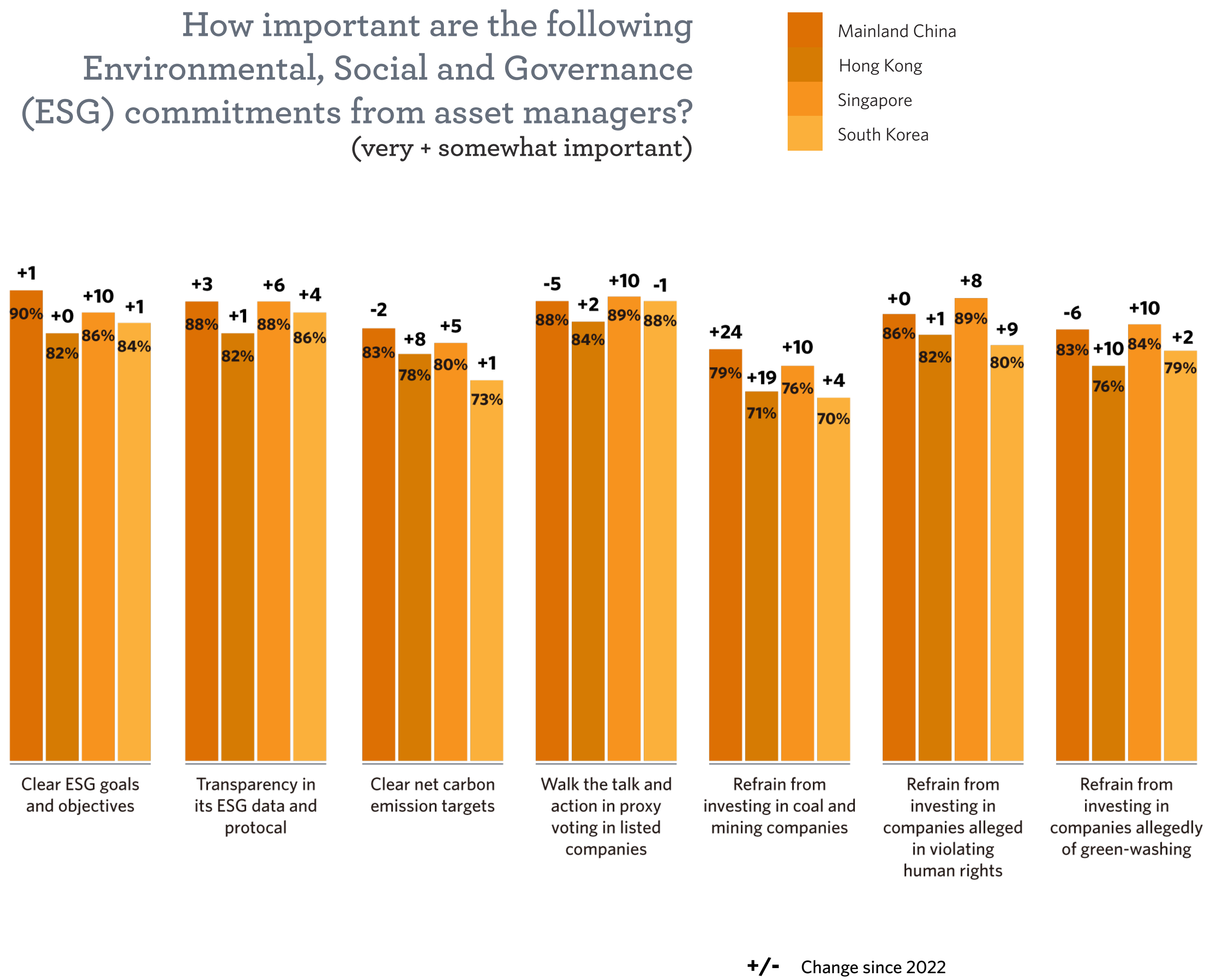
ESG investments have evolved over the years in Asia as increasing numbers of investors in Asia show more interest in national climate and development policies, energy security and sustainable finance, all of which led to greater demand for asset managers to promote sustainable investments.

Investors in the region continue to see asset managers to "walk the talk when proxy voting at listed companies" (88%) shareholder meetings, the most important ESG commitment they need to make to have an impact.

That is followed by asset managers' transparency in ESG data and protocols (86%), and then clear ESG goals and objectives (85%). These findings are much the same as last year. The survey respondents cut asset managers more slack than last year with regard to investing in coal and mining, but they put more emphasis on the importance of not investing in companies allegedly involved with human rights violations or green-washing, and setting clear net carbon emission targets.

## How important are the following Environmental, Social and Governance (ESG) commitments from asset managers?

(very + somewhat important)



# KEY INSIGHTS FOR ASSET MANAGERS

**Looking ahead, there will be a number of challenges and opportunities that Asia's asset management industry is likely to face in the coming years.**

## Challenges

**Technological disruption** – The asset management industry is being disrupted by technology. Established asset managers may face challenges from robo-advisors, virtual banks or digital wealth management firms aiming to lure away investors. In addition, the growing adoption of AI and blockchain technologies will also accelerate the technology disruption of the traditional managers. Asset managers will need to adapt to these changes to remain competitive and relevant.

**Geopolitical risks** – The ongoing geopolitical tensions around the world and within Asia have caused considerable disruption in the region, creating market volatility and prompting managers to exit certain portfolios for downside protection. The coming 12-18 months leading to the 2024 US presidential election will also put further pressure on US-headquartered asset managers as they view US-China geopolitical tensions.

**Tightening regulations in the industry** – Regulators around the world are progressively ramping up their transparency and reporting demands. The analytics and reporting information required is complex and detailed. Reports must be accurate and often delivered to tight deadlines. Strong governance frameworks providing daily monitoring of regulatory and fund risk profile limits are also essential to maintain the fund's integrity. There have already been cases where asset managers are penalized because of employees using messaging apps for client communications.

All these could potentially increase operating costs, and limit both investment and distribution opportunities. The upcoming global standards will also set the global ESG reporting standard baseline for local regulators to adopt or follow. Asset managers will need to monitor how the regulatory standards evolve globally, regionally and locally. Asset managers also need to demonstrate authentic actions with tangible results as 88% of respondents say that "walk the talk and action in proxy voting in listed companies" is the most important ESG commitment they want from asset managers.

**Meeting investor service expectations** - Investors' transparency demands are growing too. Investors want detailed yet intelligible insights on the levels and sources of an asset manager's performance, along with sophisticated risk metrics on a wide range of factors. Advanced risk and performance analytics are becoming ever more central in investor/consultant due diligence and ongoing investor retention. Producing comprehensive, customizable reports with granular detail into a manager's investment returns and the reasons behind them give investors the transparency and comfort they seek. In our latest report, 90% and 89% of respondents indicated that transparency in communications with customers and transparent fee disclosure are the most important appealing traits for asset managers respectively.

## Opportunities

**Demographic shifts** – Asia is experiencing significant demographic changes, such as an aging population and growth in digital-savvy young investors looking for more customized investment solutions. Asset managers need to look at these growth opportunities to launch new products and strategies to meet their needs.

The growing interest in ChatGPT and AI tools for investment information also present opportunities for asset managers to further adopt technology to innovate and make advances to meet customers' needs on information, portfolio construction and asset allocation.

**Investing good and doing good** – Responsible investing is increasingly important to institutions and younger generations. In Asia, 32% of respondents indicated that they intend to invest in thematic products in the next 12 months, presenting huge opportunities for asset managers expanding into this category. Mainland China last year overtook the US as the world's second largest climate funds market, reflecting the favourable domestic conditions for responsible investing. Mainland China is now the largest market for responsible investing in Asia and continues to rapidly develop its ESG ecosystem.

**Growth in appetite for private markets** – Amid the high market volatility, there is a growing interest from investors in private equities, alternatives and even semi-liquid products, which are less correlated with the markets. These are great opportunities for asset managers to ramp up their efforts in private markets investment strategies and products.

**Growing high-net-worth investors (HNWIs) and family offices** – Asia continues to be a growing region for HNWIs and family offices, which seek more investment solutions and advice to yield asset growth and preservation. Many global family offices have started opening satellite offices in Hong Kong or Singapore, aiming to diversify their risks and assets around the world in the wake of the recent crisis in the US and European banking sectors.

## Concluding thoughts

Asia continues to be a growing region for asset managers. As credibility and performance continue to be key for investors when they choose an asset manager – a key observation of our reports over the past five years – firms need to fully embrace technological innovation, demonstrate their commitment to the region and enhance transparency in communications with their customers.

In addition, product diversification into AI, digital assets, thematic and ESG investing, and private markets, as well as innovating bespoke solutions for an aging population, HNWIs and family offices will also be essential for asset managers to flourish.

Underpinning all these will be the need for each asset manager to have a distinct narrative on its global strengths, ESG commitment and regular risk assessment in order to weather the ups and downs of the market.

## Are you ready?

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

> **“FleishmanHillard is your go-to-advisory firm in managing your communications and reputation in Asia.”**

# CONTACTS

## ASIA / HONG KONG - PATRICK YU

*GM, SVP and Senior Partner*
*Asia Pacific Lead, Financial and Professional Services Sector, FleishmanHillard*
*patrick.yu@fleishman.com*

## SINGAPORE - SWYN EVANS

*Senior Vice President and Partner*
*Omnicom PR Group*
*swyn.evans@omnicomprgroup.com*

## MAINLAND CHINA - YISI LIU

*Managing Director and Senior Partner*
*FleishmanHillard*
*yisi.liu@fleishman.com*

## SOUTH KOREA - KATHY CHUNG

*Vice President*
*FleishmanHillard*
*kathy.chung@fleishman.com*

## TRUE GLOBAL INTELLIGENCE - RACHNA MULCHANDANI

*Vice President*
*FleishmanHillard*
*rachna.mulchandani@trueglobalintelligence.com*

# DISCLAIMER

This report by FleishmanHillard is a collection of publicly available information, announcements, analysis and media reports. The report aims to provide an overview of key trends affecting the asset management industry in Asia. FleishmanHillard makes no representations as to the accuracy, completeness, correctness, suitability, or validity of any information stated, and will not be liable for any errors. All information is provided on an as-is basis, based on the latest updates from credible publications and publicly available sources. The statements and analysis expressed herein are an assessment of such materials, and do not reflect the views or position of FleishmanHillard or FleishmanHillard and their employees.

# SOURCES


1 https://www.ifrs.org/news-and-events/news/2023/03/seven-key-takeaways-from-the-ifrs-sustainability-symposium/

2 https://www.theasset.com/article/48559/asian-fund-industry-poised-for-recovery-after-dismal-2022

3 https://www.calastone.com/insights/a-moment-of-great-change-the-asian-fund-industrys-race-for-the-future/

4 https://www.fundsglobalasia.com/news/apac-investors-buck-bear-market-trends

5 https://www.cerulli.com/press-releases/asian-fund-industry-set-for-revival-after-a-challenging-year

6 https://www.mckinsey.com/industries/financial-services/our-insights/digital-and-ai-enabled-wealth-management-the-big-potential-in-asia

7 https://www.mckinsey.com/industries/financial-services/our-insights/future-of-asia-the-future-of-financial-services

8 https://www.calastone.com/insights/a-moment-of-great-change-the-asian-fund-industrys-race-for-the-future/

9 https://www.ft.com/content/cf7411e8-3e5c-468e-9b49-847f60933d3a

10 https://www.ft.com/content/cf7411e8-3e5c-468e-9b49-847f60933d3a

11 https://www.ignitesasia.com/c/3995914/517474?referrer_module=searchSubFromIA&highlight=hong%20kong%20investment%2funds%20association

12 https://www.ignitesasia.com/c/3968914/514224?referrer_module=searchSubFromIA&highlight=hong%20kong%20investment%20fund%20association

13 https://www.bloomberg.com/news/articles/2022-03-16/hong-kong-pushes-to-open-greater-bay-wealth-connect-to-brokers

14 https://www.hubbis.com/news/hong-kong-s-private-wealth-management-industry-proposes-five-development-strategies-for-2035

15 https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=23CP1

16 https://www.ignitesasia.com/c/3877594/502814?referrer_module=searchSubFromIA&highlight=hong%20kong%20fund%20industry%20review

17 https://www.ignitesasia.com/c/3948354/511444?referrer_module=searchSubFromIA&highlight=hong%20kong%20fund%20industry%20review

18 https://www.asiaasset.com/post/26745-morningstar-1221

19 https://www.ft.com/content/5d7af5c7-f7f6-40f3-b024-d41c56a7436d

20 https://www.asiaasset.com/post/26745-morningstar-1221

21 https://www.asiaasset.com/post/26745-morningstar-1221

22 https://www.investmentlawwatch.com/2023/03/peoples-republic-of-china-first-qdlp-managed-by-wfoe-pfm-launched-in-shanghai/

24 https://globalnews.lockton.com/china-launches-a-new-voluntary-private-pension-scheme/

25 https://www.ey.com/en_cn/strategy/a-new-era-of-chinas-pension-system (Page 10 of report available for download)

26 https://www.ey.com/en_cn/strategy/a-new-era-of-chinas-pension-system (Downloadable report, Page 13)

27 https://www.businesstimes.com.sg/international/global/rise-and-huge-potential-china-reits

28 https://www.ft.com/content/55058f28-8c47-40c8-9919-8ded9daa53e

29 https://www.wwf.sg/respond/wp-content/uploads/sites/7/2023/04/TRANSFORMING-AMBITION-INTO-ACTIONS.pdf

# SOURCES


30 https://www.bloomberg.com/news/articles/2022-11-01/singapore-central-bank-chief-says-record-inflows-can-be-managed?sref=0yPqMgaW&leadSource=uverify%20wall

31 https://www.ft.com/content/ea198ae9-7157-4e3c-9832-2db4cf93d1c2

32 https://www.mas.gov.sg/news/speeches/2023/growth-opportunities-of-alternative-investment-industry-and-its-ecosystem-in-singapore

33 https://www.reuters.com/markets/asia/singapores-asset-management-sector-surges-record-funds-expand-2022-10-21/

34 https://www.mas.gov.sg/news/speeches/2023/growth-opportunities-of-alternative-investment-industry-and-its-ecosystem-in-singapore

35 https://www.reuters.com/markets/asia/singapores-asset-management-sector-surges-record-funds-expand-2022-10-21/

36 IMAS 2023 Survey

37 https://www.businesstimes.com.sg/companies-markets/seven-10-singapore-fund-managers-see-10-20-upside-asian-equities-2023?login=true

38 https://www.mas.gov.sg/news/speeches/2023/growth-opportunities-of-alternative-investment-industry-and-its-ecosystem-in-singapore

39 https://www.theasset.com/article/48559/asian-fund-industry-poised-for-recovery-after-dismal-2022

40 https://asianbondsonline.adb.org/economy/?economy=KR

41 https://www.insightia.com/agh12022/

42 https://www.goldmansachs.com/insights/pages/gs-research/korea-what-if/report.pdf

43 https://www.ft.com/content/7aeed811-64e6-4b7b-921b-9326377a3408

44 https://www.bloomberg.com/news/articles/2023-02-13/south-korea-s-busan-turns-to-crypto-to-tackle-aging-population