Optimising Sales in Asia

Price, product or performance – what drives fund sales in Asian markets?

OXFORD METRICA

BNY MELLON

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1 Foreword

When making critical business decisions, the formulation and execution of strategy must be informed by a firm grip of cold, hard facts – especially in times of unprecedented change and uncertainty. To help inform executives within global asset management firms and better address their key business challenges, BNY Mellon is launching a series of strategic reports which are firmly rooted in independent, evidence-based analysis.

The question of maximising fund sales in Asia is a prominent one for asset managers looking to optimise their opportunities beyond established home markets. As such we're launching this new series with a study that focuses on the relative importance of price, product and performance in growing market share, using a ground-breaking methodology to investigate a substantial database. I'd like to take this opportunity to commend Oxford Metrica, a specialist UK-based advisory firm, not only for creating a framework for analysing drivers of fund sales in key Asian markets, but also for providing a basis for delivering data-driven analyses of a wide range of key themes and topics of strategic significance to asset managers.

BNY Mellon is delighted to be working with Oxford Metrica to present this study. We hope you can use this study as a valuable input into your Asian strategy, whether ramping up your existing presence or identifying first steps into the region. Moreover, we look forward to sharing future insights and findings with our global client base, and working with you to execute on the strategies you develop, based on a keen understanding of market realities and dynamics, and of the tools and processes required to deliver success.

Daron Pearce
Global Head, Investment Managers Segment
BNY Mellon Asset Servicing

2 Executive Summary: Go Local, Very Local

Sales success in Asia's major cross-border funds markets requires a deep understanding of the different factors that inform retail and institutional demand. Singapore, Hong Kong, Taiwan and South Korea are the focus of this report as markets where the European UCITS structure is accepted and therefore accessible entry points for non-Asian investment managers seeking to sell existing UCITS funds into Asia.

As one might expect, retail investors are generally more price sensitive than institutional investors, and performance counts to a greater or lesser extent in most markets. But the interplay between price, product range and performance is finely balanced across all markets analysed and, as such, close attention to the realities of individual markets is required by fund promoters. Moreover, there exist clear and measurable differences between Asian markets, between distribution channels within markets, and between asset classes.

These broad 'headline' observations – plus those below and the more detailed findings within the body of this report – are derived from a landmark study of Asia's key cross-border markets, based upon a robust and innovative quantitative analysis of fund sales data on an unprecedented scale. To produce meaningful insights for asset managers active in the Asian market, BNY Mellon has partnered with Oxford Metrica to develop a statistical framework for analysing the role of price, product range and performance in the purchasing decisions of institutional and retail investors, which draws upon a comprehensive fund portfolio, provided by Lipper, a Thomson Reuters company, a leading provider of mutual fund data.

In response to the question, 'What drives sales in Asia – price, product range or performance?', the BNY Mellon/Oxford Metrica methodology yields the following key results:

Price sensitivity: Not just a retail issue

1. Strong sensitivity to price is demonstrated by cross-border retail investors in Singapore, Hong Kong and South Korea, but not in Taiwan, where the retail market exhibits higher fund prices, on average, than either Singapore or Hong Kong.
2. South Korean institutional investors enjoy the lowest fund prices across the four markets, in parallel with regulatory changes to attract inflows of international assets. In contrast, South Korea has the highest retail fund prices, reflecting more agents in the sales process and restricted supply of funds.

Product range: One-stop shop or specialist expertise?

3. Hong Kong retail investors exhibit a preference for product range: a one-stop shop that can provide funds suitable through different market cycles. Although Hong Kong's retail market is characterised by less product diversity than its institutional fund market, institutions generally favour expertise from niche providers.
4. Retail investors in Taiwan and, to a lesser extent, South Korea, appear to prefer narrow product focus (i.e. funds offered by specialist providers), but the retail market in Taiwan offers greater product diversity than is offered to retail investors in Hong Kong.

Performance impact: Beating the benchmarks

5. Cumulative returns over 1-year, 3-year and 5-year time periods are shown to be a strong driver of sales for retail investors across all four markets, with the relationship between sales and performance for institutional investors stronger over the longer time periods.
6. For institutional and retail investors in Singapore and Taiwan (and, to a lesser extent, South Korea), there is some evidence of a fund's relative performance to the index being an important component of the purchase decision. Outperforming the benchmark index does not appear to be as strong a driver for Hong Kong investors for whom brand security perhaps holds greater weight.

This paper should be used by current and prospective players in the Asian cross-border fund market to provide an initial insight into investor preferences when reviewing marketing and strategic priorities.

As well as providing detailed quantitative analysis of the role of price, product range and performance on fund sales in four key cross-border fund markets, the report also uses interviews with BNY Mellon clients, and expertise from BNY Mellon Regional Executives, to provide supporting qualitative commentary on the market trends and developments. This will help readers understand the distinct domestic context within which fund purchase decisions are made.

BNY Mellon will use the methodology on which this report is based in further studies with the aim of helping clients in the asset management sector to make strategic decisions based on statistical insight and market intelligence.

A note on methodology

The methodology devised by Oxford Metrica to provide the quantitative analysis in this BNY Mellon report was initially constructed to provide a framework to investigate statistically a range of themes and topics relevant to the fund management industry. It was then tailored more specifically, with Oxford Metrica building a substantial database populated by raw data sourced from Lipper, a Thomson Reuters company, covering 4,358 funds with a total net asset value of USD958 billion over the five-year period (2010-2014).

The database includes static data, reflecting the composition of the current cross-border fund market for five Asian jurisdictions (those listed above, plus Japan) by channel, domicile, asset class, cost and currency, as well as data on total net assets and performance to enable the identification of emerging trends over a five-year period.

Extensive quantitative analysis of the full universe of funds was undertaken (no sampling) and subjected to robust modelling procedures. Three broad stages of analysis were undertaken:

- Defining the relevant portfolio of funds to be studied and identify where each fund is registered for sale – Whilst it is relatively straightforward to identify domestic funds for each country, this study focuses on cross-border funds which tend to be registered in multiple countries, and classified typically as 'international'.
- Devising a quantitative metric of product range – This metric had to combine the number of asset classes offered by a company with the distribution of assets across those classes to capture spread accurately.
- Creating a model to estimate the correlation coefficients between sales, and price, product range and performance, and establish whether any significant relationships exist.

This methodology produced independent, evidence-based analysis of the fund purchase decision of use to fund managers seeking to enter Asia or expand sales in the region, as well as a basis for further analysis of other regions and/or themes. See page 15 for more detail on methodology.

In Hong Kong and Taiwan, institutional investors prefer equity funds, whereas in Singapore and South Korea they favour bond funds. Equity funds are most popular in the retail markets of Taiwan, Hong Kong and Singapore, while the majority of South Korean retail investors prefer bond funds.

3 The Fund Landscape: Much in Common, but Many Differences Remain

Fund markets in Asia are extremely diverse and are growing rapidly. Regulation across the region is highly fragmented, cultural differences abound and investor preferences vary widely.

Even for mature, open markets such as the four markets featured in this report, such a richly contrasting landscape requires carefully tailored distribution strategies.

The importance of localisation

Interviews conducted to accompany this study reveal a strong belief in deep market knowledge, local presence, where possible leveraging existing resources and partnerships. In terms of entry strategy, interviewees generally favoured a gradual build out across the region, typically ensuring that the agreed approach was working well in a small number of markets before committing further.

"It is a big mistake to look at Asia as a whole, not as very different individual countries with very different investment needs." US-BASED ASSET MANAGER

"Localisation is the most important part of any entry strategy." UK ASSET MANAGER

To grow an existing presence, interviewees emphasised service quality, support capabilities and brand identity as key success factors alongside deep knowledge of demand drivers and distribution dynamics in individual markets.

"We have found it important to take a country-by-country approach, with a different business model for each market. You also ought to be thinking along different time spans for institutional and retail markets." US-BASED GLOBAL ASSET MANAGER

The focus of this paper is cross-border funds distributed into Singapore, Hong Kong, Taiwan and South Korea, defined as funds in which less than 80% of assets are sourced from a single country. Japan is dominated by the domestic retail segment and, therefore, was excluded from the study. Figure 1 depicts the total net assets of funds in the study portfolio, registered for sale in each of the four Asian markets, for both institutional and retail investors.

Figure 1: Total Net Assets (USDbn), by segment

Data source: Lipper, a Thomson Reuters company.

The portfolio of funds constructed for this study excludes funds beneath a USD10 million threshold and includes only those for which there is a complete set of data.[1] The graph describes the fund landscape underlying the study, therefore, rather than reflecting total market size or respective market shares.

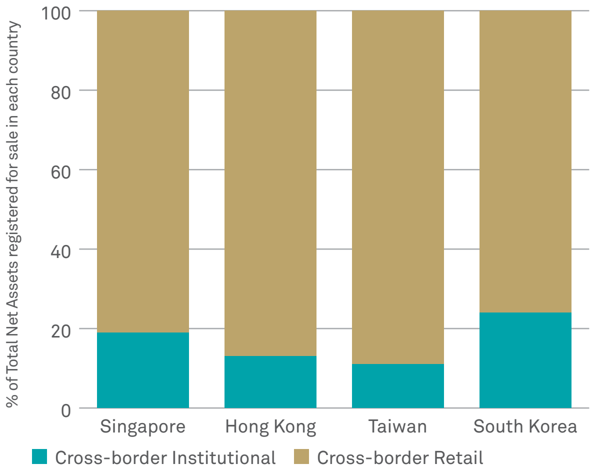
Nonetheless, Singapore's role as a major offshore wealth management hub and a regional centre for investment management is apparent, with more cross-border fund assets registered for sale in Singapore than in Hong Kong, Taiwan and South Korea combined. This is the case for either institutional funds or retail funds. As such, readers should bear in mind that Singapore's retail and institutional market is much less typically 'domestic' than other markets analysed in the report; moreover its retail market may contain a higher proportion of high-net worth customers, who may exhibit distinct buying characteristics.

Figure 2, which presents the same data but in relative terms, highlights retail domination across all four markets, with South Korea (24%) the only market in which institutional funds exceed 20% of

1 For further detail on the construction of the portfolio of funds, see Data and methods.

TNA: compared with Singapore (19%), Hong Kong (13%) and Taiwan (11%). In established markets such as Singapore, Hong Kong and Taiwan, European UCITS funds account for the majority of retail sales, while South Korean cross-border funds are sold through feeder fund structures or wrapped products. As in most retail markets, third-party distribution plays a key role in all four cross-border fund markets analysed here, albeit subtly different ones, with banks in Taiwan, for example, aiding and encouraging fast 'churn' between funds by retail investors.

Figure 2: Total Net Assets (%), by segment



Data source: Lipper, a Thomson Reuters company.

While it is important to focus on the differences between markets, there are some common threats, opportunities and pre-requisites to success. Asia has been a major 'export' market for UCITS over the past decade or so, but growth has slowed in recent years. The Taiwan market in particular is characterised by high turnover, for example, rather than real increases in assets under management, while UCITS growth in South Korea has been halted by tax changes.

A further reason for slower UCITS growth has been local regulatory concerns about the potential risks posed by a wider range of permissible instruments since UCITS III, as well as fund domicile in European jurisdictions, post-crisis, notably Ireland.

This has led to increased efforts to launch Asian passporting schemes that would allow funds to be marketed in more than one jurisdiction. Global asset managers operating in Asia's cross-border fund market are watching developments closely, ready to adapt quickly to new distribution mechanisms and regulations if necessary. There is a possibility that Singapore and Hong Kong could replicate the success of Luxembourg and Dublin, and become the fund domicile centres of Asia. Some predict that this move could happen relatively quickly, requiring prospective entrants to factor new structures into their marketing strategies.

Set against the costs of moving from UCITS to new legal structures, are the opportunities to reach into new territories beyond the existing markets for cross-border funds, although this will depend to a certain extent on how rival passport schemes evolve. As an offshore centre, Singapore already has the distribution infrastructure to reach markets such as Indonesia and India, while Malaysia is also viewed as a potential growth market for cross-border funds.

Working the channels

In terms of sales, interviewees mentioned the importance of local domicile in certain markets across Asia in addition to the value of relevant partners, such as private banks and other promoters. The possibility of one or more 'Asian passport' schemes is also causing a certain amount of interest. Local language skills, including usage in sales material, were also mentioned by a number of interviewees.

"Working with private banks and master agents has allowed us entry with less infrastructure expense." UK ASSET MANAGER

"The winners will be the asset managers that will have product that can be passported quickly to the other Asian markets." EUROPEAN ASSET MANAGER

"Like Europe, Asia is multi-regional and multi-lingual, but it is a much more complicated region to cover. Funds need to be sold rather than bought and more education needed." UK ASSET MANAGER

4 What Drives Sales in Asia – Price, Product or Performance?

The diverse characteristics of the four markets analysed – as outlined in the section above – demanded that our analysis of the relationship between a fund's net inflows and its price, performance, and product range be conducted for each market distinctly, and for each distribution channel (institutional and retail).

4.1 Price sensitivity: Not just a retail issue

Statistical analysis conducted for this report supports received wisdom that retail fund buyers are typically more sensitive to price than institutions, but the picture differs widely across markets. In the retail market, for example, Hong Kong retail investors appear considerably more influenced by price than their counterparts in Taiwan, while an analysis of total expense ratios (TERs) across asset classes reveals interesting differences across both institutional and retail channels in the four markets analysed.

To examine price sensitivity, Oxford Metrica explored the relationship between price (as represented by TER) and sales momentum, defined as the ratio of estimated net sales (ENS) at the end of the year to total net assets (TNA) at the start of the year.[2] While TER gives a valuable common basis for comparison across all markets analysed, BNY Mellon suggests readers also consider the impact of commission structures, which can vary within and across jurisdictions.

The relationship was analysed for each of the last five years to identify fluctuations over time, with the strongest negative correlations (i.e. sales going down as prices go up) reflected by the darkest yellow shading in Table 1 below.

Table 1: Relationship between price and sales

	INSTITUTIONAL				
TER (%)	**2010**	**2011**	**2012**	**2013**	**2014**
Singapore					
Hong Kong					
Taiwan					
South Korea					
	RETAIL				
Singapore					
Hong Kong					
Taiwan					
South Korea					

Positive correlation coefficient	99%	95%	90%
Negative correlation coefficient	99%	95%	90%

Data source: Lipper, a Thomson Reuters company.

Unsurprisingly perhaps, the inverse relationship between price and sales is most prominent for retail investors. While the relationship is evident in Singapore and South Korea, the Hong Kong retail investor shows the most consistent sensitivity to price through the time period. Perhaps more surprising is the entire absence of a strong relationship in the Taiwan retail market.

Funds are traded on a more short-term basis in the Asian retail markets than in most North American or European markets. Taiwan is regarded as having a higher 'churn' rate than most, with third-party distributing banks competing for business in a market that is showing more turnover between funds than overall AUM growth, but evidence suggests the retail fund purchase decision here is a function of other factors more than price.

Asset class divide

Across the portfolios of institutional funds analysed, there was no clear evidence of significant price-sensitivity in any of the four markets. Whilst one would expect greater sensitivity to price by retail investors, it would be a leap to say that there is none among institutions. Table 2 provides a closer look at the range of TERs charged: by country, distribution channel and main asset class. Shown for each segment is the minimum and maximum TER charged, the mean average, and the number of funds analysed.[3]

2 For a full list of definitions, see Glossary of terms.

3 The number of funds analysed indicates those registered for sale in each market segment with complete data available, and subject to the parameters detailed in the section, Data and methods. The figures are not additive and should not be taken to indicate total market size.

Table 2: Summary statistics – TER[4]

	INSTITUTIONAL				RETAIL			
TER (%)	Minimum	Mean	Maximum	No. of funds	Minimum	Mean	Maximum	No. of funds
EQUITIES								
Singapore	0.01	1.01	3.59	335	0.05	1.90	4.30	1434
Hong Kong	0.03	1.22	2.01	78	0.30	1.96	3.81	589
Taiwan	0.06	1.10	2.01	69	0.77	2.01	3.78	408
South Korea	0.04	0.87	1.53	75	0.70	2.27	3.81	212
BONDS								
Singapore	0.01	0.67	1.66	381	0.09	1.41	3.50	1029
Hong Kong	0.33	0.84	1.46	47	0.08	1.53	3.21	277
Taiwan	0.05	0.73	1.50	50	0.55	1.62	3.50	239
South Korea	0.04	0.65	1.02	46	0.74	1.73	3.21	109
MIXED ASSETS								
Singapore	0.01	0.93	1.96	34	0.33	1.79	3.85	246
Hong Kong	0.89	0.98	1.09	7	0.08	1.75	3.05	53
Taiwan	0.96	1.03	1.09	4	0.08	1.83	3.85	33
South Korea	0.89	0.89	0.89	2	1.58	2.04	2.99	21
MONEY MARKET								
Singapore	0.01	0.16	1.18	34	0.07	0.36	1.52	101
Hong Kong	0.20	0.22	0.26	3	0.13	0.36	1.06	17
Taiwan	–	–	–	–	0.13	0.47	1.21	21
South Korea	–	–	–	–	0.37	0.79	1.52	6

Data source: Lipper, a Thomson Reuters company.

For equity and bond funds, Hong Kong institutional investors pay the highest average prices across the four markets analysed – an average of 1.22% for equity funds and an average of 0.84% for bond funds – which may reflect market domination by a few key funds from prominent fund houses.

In contrast, South Korea provides the lowest priced institutional funds in equities, bonds and mixed assets by mean average, and the lowest maximum TER in the institutional market across the three asset classes. Domestic providers of cross-border funds have benefitted in recent years from changes to the South Korean tax regime which had previously favoured offshore promoters of UCITS funds. Competition among domestic fund managers and efforts to diversify portfolios held by the country's previously domestically focused pension funds may be combining to lower prices across institutional funds in South Korea.

In contrast, South Korean retail funds have the highest average TER across the four countries analysed. This may reflect the costs added to the distribution process by that fact that master-feeder structures in South Korea now require additionally a third party distributor as the transfer agent.

Furthermore, restrictions on the distribution of retail funds in South Korea – permitted only by banks, securities firms and insurance companies – effectively limits supply and raises prices, thereby representing a major hurdle to market growth.

The maximum TER figures for institutional and retail equity funds registered for sale in Singapore (3.59% and 4.30%) might suggest an acceptance of higher TERs befitting an affluent, largely offshore market. But this is indicated better by the mean average; 1.01% for institutional funds and 1.90% for retail funds. Only four institutional funds in Singapore exceed the equity fund maximum of 2.01% for Hong Kong and Taiwan, and only one retail fund in Singapore exceeds the equity fund maximum of 3.81% for Hong Kong and South Korea. As such, one might conclude that the maturity of international institutional investing in Singapore and Hong Kong enables these markets to charge a higher price.

Retail funds in Taiwan charge, on average, a higher TER than those in either Singapore or Hong Kong, irrespective of asset class; 2.01% for equities, 1.62% for bonds, 1.83% for mixed assets and 0.47% for money market funds. This is consistent with the results in Table 1, where retail investors in Taiwan exhibit a distinct lack of price sensitivity.

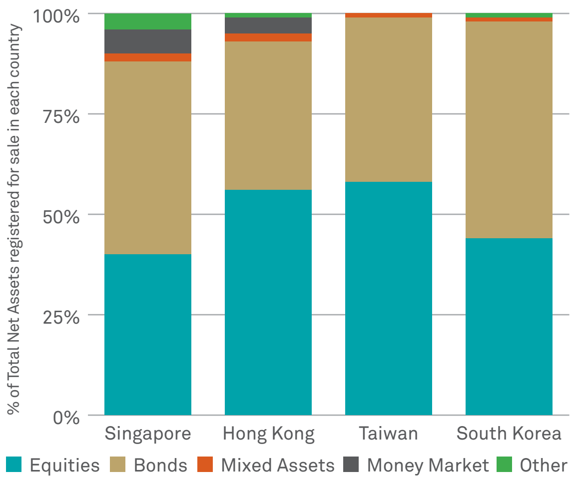
4 There are no money market funds in the fund universe for institutional investors in either South Korea or Taiwan.

4.2 Product range: One-stop shop or specialist expertise?

Our analysis suggests that there is a stronger relationship between product range and sales momentum among retail fund purchasers than their institutional counterparts but, perhaps surprisingly, this relationship is positive and negative in different jurisdictions.

Are customers attracted to providers that offer a range of fund types or demonstrate niche expertise or both? What we can say with some certainty is that expertise and assets are focused on two fund types in Asia's main cross-border fund markets. Figures 3 and 4 illustrate the relative popularity of funds differentiated by asset class – equities, bonds, mixed assets, money market and 'other' (includes alternatives, commodities and real estate) – among institutional and retail investors, across the four countries in focus.

Figure 3: Institutional funds TNA, by asset class

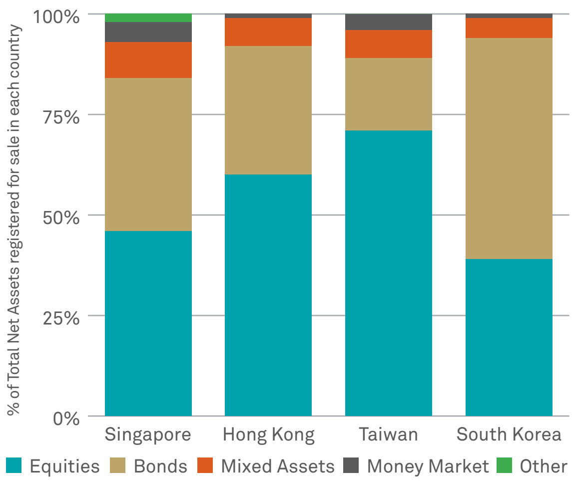


Data source: Lipper, a Thomson Reuters company.

In the institutional fund market, equities dominate in both Taiwan and Hong Kong, while bonds are the most popular fund type in South Korea and Singapore (money market funds are not represented in the dataset for either Taiwan or South Korea).

As Figure 4 shows, equity funds are most popular in the retail markets of Taiwan, Hong Kong and Singapore, while the majority of South Korean retail investors (55%) favour bond funds. Mixed asset funds have a greater presence in the retail markets, and money market funds are more popular in Singapore (5%) and Taiwan (4%), than in Hong Kong or South Korea.

Figure 4: Retail funds TNA, by asset class



Data source: Lipper, a Thomson Reuters company.

To measure the relevance of product range to fund sales across different markets and channels, Oxford Metrica devised a metric of product diversity which combines the number of asset classes offered by a fund manager with the spread of the company's funds (by TNA or number of funds) across those asset classes.[5]

By considering product range across different asset classes, we can measure the extent to which buying decisions are influenced by the availability and range of a fund promoter's products, but more detailed data would be needed to facilitate analysis of product range *within* each asset class. When reviewing the evidence of a correlation between product diversity and sales momentum in Table 3 below, one should be wary of isolated results, however statistically significant, and look for consistency, reasonableness and patterns that are sustained over time.

5 See Data and methods for further detail.

Table 3: Relationship between product diversity and sales

	INSTITUTIONAL				
Product diversity by TNA	**2010**	**2011**	**2012**	**2013**	**2014**
Singapore					
Hong Kong					
Taiwan					
South Korea					
Product diversity by No. of funds	**2010**	**2011**	**2012**	**2013**	**2014**
Singapore					
Hong Kong					
Taiwan					
South Korea					
	RETAIL				
Product diversity by TNA	**2010**	**2011**	**2012**	**2013**	**2014**
Singapore					
Hong Kong					
Taiwan					
South Korea					
Product diversity by No. of funds	**2010**	**2011**	**2012**	**2013**	**2014**
Singapore					
Hong Kong					
Taiwan					
South Korea					

Positive correlation coefficient	99%	95%	90%
Negative correlation coefficient	99%	95%	90%

Data source: Lipper, a Thomson Reuters company.

The stronger, sustained relationships between product diversity and sales, apparent in the retail market compared with institutional purchasers, is consistent with broader institutional use of niche products from smaller fund promoters. Institutional investors are more likely to use providers that offer products to meet their specific needs, either through specialist providers or those with wide product ranges, provided performance and pricing criteria are met.

The Singapore and Hong Kong retail markets appear to exhibit different attitudes to product diversity, with the former – a more diverse and possibly discerning group – showing a certain ambiguity. The evidence suggests some preference for product range among the largely domestic Hong Kong retail clientele, via a strong positive relationship between product range and sales in three of the five years analysed, across the two measures. This would suggest that a brand-led one-stop model, able to provide investment solutions through all market cycles, would be well-suited to a relatively larger domestic retail market such as Hong Kong.

In contrast, the analysis suggests the Taiwanese retail fund purchaser may favour the specialist provider. In four of the five years analysed, sales momentum is negatively correlated with product diversity when measured by the spread of total net assets across different asset classes. There is slight (but not sustained) evidence of a positive correlation when product diversity is measured by number of funds across asset classes rather than by total net assets.

This apparent contradiction may suggest a preference among Taiwanese retail investors for a fund provider that can offer funds in many asset classes but is a specialist (i.e. has a concentration of assets) in only a few. This preference is echoed by South Korean retail investors.

Mind the product gap

As one might expect of global asset management houses, interviewees were committed to providing a range of product options to cater for changes in demand across economic cycles, with potential growth in the number of products available to bridge the traditional divide between passive and active management.

"You cannot afford to have a narrow product range; companies with narrow product ranges will not succeed and survive in Asia. We expect total return/target data/index strategies to become more popular". US-BASED GLOBAL ASSET MANAGER

In search of diversity

And how much diversity can be found in these four markets? Our analysis, as highlighted below, reflects the reality that it is easier for providers to offer a range of funds across different asset classes than it is to build TNA across asset classes. It also suggests some institutional clients in certain jurisdictions are offered greater diversity than their retail counterparts.

In Table 4, which presents minimum, maximum and mean average product diversity results for each market segment in 2014, a metric of 0 indicates no product diversity across asset classes; the fund promoter specialises in a single asset class. A score closer to the upper bound of 1 suggests greater range.

On average, the product range available to retail investors in Singapore and Taiwan is at least as great as that offered to institutional investors in these countries. When measured by TNA, for example, product diversity is 0.40 on average in the Singapore retail market (0.36 in Taiwan), compared with a slightly lower 0.34 in the institutional market (0.32 in Taiwan).

In clear contrast, institutional investors in Hong Kong and South Korea enjoy a greater product range than their retail counterparts, although the limited number of fund promoters selling funds in the South Korean retail market makes drawing any firm conclusions from its average figures difficult. Given that product range has been shown to be a contributor to sales growth in the retail market in Hong Kong, the results suggest an opportunity for fund promoters to improve the range in their retail product offering at least to institutional levels.

It is interesting to note that retail investors in Taiwan, who have demonstrated a preference for product focus, enjoy higher levels of product diversity on average than Hong Kong retail investors, perhaps reflecting the battle for market share in a market characterised by lack of AUM growth.

Table 4: Summary statistics – Product diversity

	INSTITUTIONAL				RETAIL			
TER (%)	Minimum	Mean	Maximum	No. of promoters	Minimum	Mean	Maximum	No. of promoters
Product diversity by TNA								
Singapore	0.00	0.34	0.75	29	0.00	0.40	0.73	38
Hong Kong	0.00	0.34	0.64	15	0.00	0.31	0.67	26
Taiwan	0.00	0.32	0.54	16	0.00	0.36	0.74	24
South Korea	0.02	0.39	0.51	6	0.00	0.21	0.53	9
Product diversity by No. of funds								
Singapore	0.00	0.43	0.70	29	0.00	0.43	0.71	38
Hong Kong	0.00	0.45	0.66	15	0.00	0.35	0.66	26
Taiwan	0.00	0.35	0.55	16	0.00	0.43	0.69	24
South Korea	0.28	0.44	0.50	6	0.00	0.26	0.55	9

Data source: Lipper, a Thomson Reuters company.

4.3 Performance impact: Beating the benchmarks

As all investors know, past performance is no guarantee of future returns. But to what extent does a demonstrable track record support sales growth? In a period of considerable uncertainty and change, our analysis reassuringly provides evidence that Asian fund investors respond to performance, with both retail and institutional markets showing strong correlations to sales.

Cumulative performance is strongly linked to sales momentum in all retail fund markets analysed, across all periods, while institutions appear to make a distinction between shorter- and longer-term performance. On a geographic basis, our analysis also suggests that there is a wider variety of factors influencing purchasing decisions in Hong Kong, notably in the retail space.

Highlighted in Tables 5 and 6, the relationship between cumulative performance and sales momentum is measured over 1-year, 3-year and 5-year periods. Because the dataset underpinning the analysis embraces a five-year period, the 5-year cumulative return appears once (in 2014). Performance was measured both in absolute terms and relative to the appropriate fund sector benchmark index.

The institutional market in Singapore shows a sustained relationship between 1-year performance and sales, though the strength even of this relationship has weakened over the time period. All four institutional fund markets demonstrate a very strong correlation in 2014 between 3-year performance and sales.

Table 5: Relationship between performance and institutional fund sales

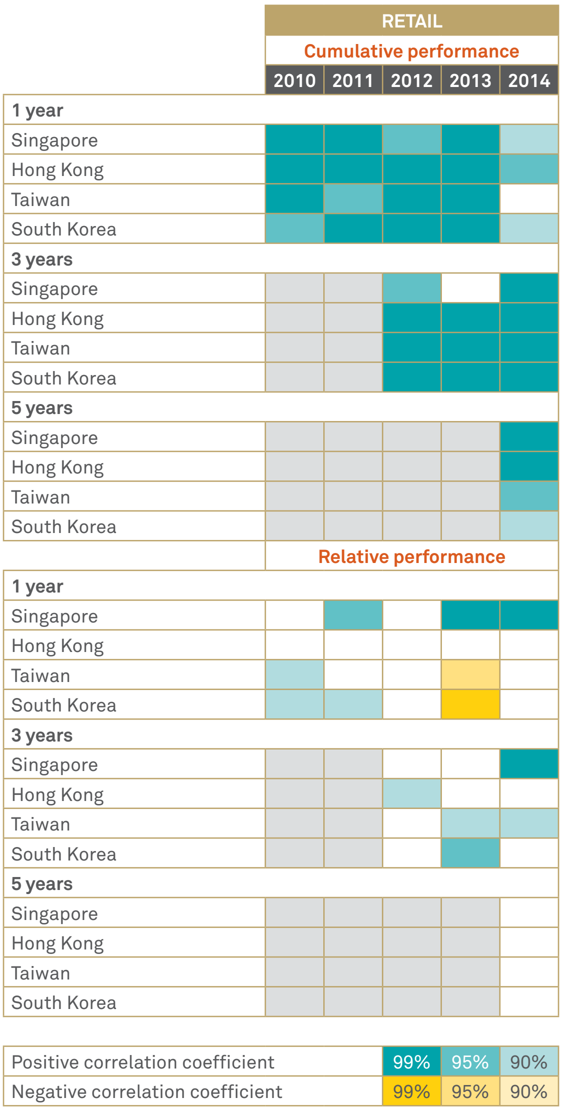
	INSTITUTIONAL				
	Cumulative performance				
	2010	2011	2012	2013	2014
1 year					
Singapore					
Hong Kong					
Taiwan					
South Korea					
3 years					
Singapore					
Hong Kong					
Taiwan					
South Korea					
5 years					
Singapore					
Hong Kong					
Taiwan					
South Korea					
	Relative performance				
1 year					
Singapore					
Hong Kong					
Taiwan					
South Korea					
3 years					
Singapore					
Hong Kong					
Taiwan					
South Korea					
5 years					
Singapore					
Hong Kong					
Taiwan					
South Korea					

Positive correlation coefficient	99%	95%	90%
Negative correlation coefficient	99%	95%	90%

Data source: Lipper, a Thomson Reuters company.

Longer-term performance, captured by the 5-year cumulative return, shows a very strong relationship with sales for institutional fund markets in all but Hong Kong, where the market is dominated by a few big names. Neither is there strong evidence that institutional investors in Hong Kong are swayed by outperformance by funds, especially when compared with Singapore. Rather, outperforming the benchmark index appears to be linked to sales growth particularly in Singapore and Taiwan, suggesting greater competition. The results for Hong Kong are consistent with earlier observations which show that institutional investors in the country are less sensitive also to price.

Table 6: Relationship between performance and retail fund sales



Data source: Lipper, a Thomson Reuters company.

Across all retail markets, cumulative performance is strongly linked to sales momentum, across 1-year, 3-year and 5-year time periods. The distinction between shorter 1-year performance and longer-term performance seen in the institutional market, therefore, is not shared by the retail market. Indeed, the 5-year relationship between outperformance and sales that was found in the institutional fund market for Singapore and Taiwan is entirely absent across retail funds. An absence of sustained evidence of a link between relative performance and sales for retail investors in Hong Kong, may underline the importance of brand loyalty to providers across a range of products, compared with Singapore, for example.

The two isolated results in 2013 of a negative correlation between relative performance and sales for retail investors in Taiwan and South Korea are not sustained, and may indicate a 'topping up' of underperforming funds.

Performance range

To assist further insights, Table 7 below provides an indication of the norm and the range of performance that might be expected by institutional and retail investors across different asset classes in different markets. The table provides the minimum, maximum and mean average performance statistics. The number of funds analysed is provided and care is advised when examining statistics for market segments and asset classes that have relatively small sample sizes.

Reaching a new generation of investor?

A number of interviewees made particular reference to the need for innovation to maintain and grow market share, both in terms of the use of consumer technologies and social media for retail customer engagement, but also harnessing technological advances to improve aspects of service quality such as reporting.

"You need to make yourself accessible online." US-BASED GLOBAL ASSET MANAGER

"Firms need to engage with clients via social media as part of their growth strategies, for example providing real-time portfolio information to institutional clients."
EUROPEAN ASSET MANAGER

"Google, Amazon, Alibaba have an ability to reach out to customers in a cheaper way than traditional asset managers." EUROPEAN ASSET MANAGER

Table 7: Summary statistics – Cumulative performance

	INSTITUTIONAL				RETAIL			
	Cumulative performance (%)							
	Minimum	Mean	Maximum	No. of funds	Minimum	Mean	Maximum	No. of funds
EQUITIES								
1 year								
Singapore	-12	20	72	334	-18	14	97	1447
Hong Kong	2	22	71	79	-11	19	70	600
Taiwan	-2	21	43	68	-7	19	68	409
South Korea	-12	22	72	74	-7	21	70	213
3 years								
Singapore	-59	41	188	295	-60	24	181	1288
Hong Kong	-16	43	141	77	-57	37	181	560
Taiwan	-12	48	141	66	-60	38	181	390
South Korea	-17	41	188	72	-58	35	181	207
5 years								
Singapore	-40	62	245	247	-44	41	218	1073
Hong Kong	-16	71	209	69	-42	57	230	493
Taiwan	1	71	187	58	-46	56	211	358
South Korea	-16	62	245	62	-23	54	231	199
BONDS								
1 year								
Singapore	-3	10	27	389	-20	13	70	1075
Hong Kong	2	9	19	57	0	10	22	293
Taiwan	2	9	15	50	-4	9	19	238
South Korea	2	10	18	46	1	9	17	109
3 years								
Singapore	-90	14	80	294	-60	22	180	880
Hong Kong	-5	13	35	43	-17	13	39	246
Taiwan	-5	18	41	44	-24	15	43	221
South Korea	-2	17	37	40	-4	13	35	108
5 years								
Singapore	-90	31	74	197	-49	39	231	649
Hong Kong	2	30	63	24	-2	32	70	195
Taiwan	12	41	74	36	-8	33	68	179
South Korea	10	40	65	38	3	33	75	101
MIXED ASSETS								
1 year								
Singapore	2	12	32	34	-12	12	56	242
Hong Kong	2	13	32	14	1	14	30	55
Taiwan	13	14	15	4	8	13	23	32
South Korea	15	16	17	2	11	14	18	21
3 years								
Singapore	-5	22	129	25	-59	19	147	208
Hong Kong	-1	30	129	14	0	31	123	38
Taiwan	24	30	42	4	7	25	38	25
South Korea	39	39	40	2	21	33	37	21
5 years								
Singapore	-2	34	70	15	-44	35	158	163
Hong Kong	25	39	57	10	18	47	96	30
Taiwan	35	42	57	4	11	39	58	25
South Korea	55	62	70	2	25	49	81	21
MONEY MARKET								
1 year								
Singapore	0	1	8	34	-4	12	41	100
Hong Kong	0	0	0	4	0	0	8	17
Taiwan	–	–	–	–	-2	2	8	21
South Korea	–	–	–	–	-1	-1	0	6
3 years								
Singapore	-13	-4	8	31	-58	19	181	100
Hong Kong	-7	-3	1	4	-9	-4	2	17
Taiwan	–	–	–	–	-9	–3	3	21
South Korea	–	–	–	–	-11	-5	-1	6
5 years								
Singapore	-9	2	18	30	-19	37	230	91
Hong Kong	-7	-3	2	4	-10	-3	5	16
Taiwan	–	–	–	–	-10	0	24	21
South Korea	–	–	–	–	-13	-6	-1	6

Data source: Lipper, a Thomson Reuters company.

The associated statistics for relative performance (the degree to which funds out- or underperform the relevant benchmark index) are not presented separately as they confirm simply that the average relative performance across each asset class is close to zero and, therefore, is reflective of the index. For retail funds, the average figures appear slightly below zero, revealing the higher TERs that retail funds incur compared with institutional funds.

5 Conclusions: Preconceptions Confirmed or Rebutted?

"In terms of fund distribution in Asia, there is no one secret to success."
US-BASED GLOBAL ASSET MANAGER

The purpose of this paper is to provide senior executives at international asset management firms and other fund promoters with greater insight into fund purchase decisions taken by investors in key cross-border fund markets in Asia – Singapore, Hong Kong, Taiwan and South Korea – in order to understand better what drives sales. More specifically, the research aim was to measure the relationship between fund sales, and price, product range and performance for institutional and retail investors in these four markets.

It is clear that investors across these different market segments have very different sensitivities to price, product range and performance. Whilst some results are intuitive and expected, the research seeks also to measure investors' preferences such that preconceptions may be confirmed or rebutted, and the parameters (of price, product and performance) may be quantified.

- Singapore – A mature and competitive market, Singapore retail investors are price-sensitive and demand strong fund performance. Institutional investors in Singapore are driven more by longer-term performance, and investors in both distribution channels look to outperform the benchmark index.
- Hong Kong – Outperforming the benchmark index does not appear to be a core component of the fund purchase decision for investors in Hong Kong; institutional or retail. Despite the retail market in Hong Kong exhibiting a preference for product range that can cater for investors throughout many market cycles, the retail segment reflects less product diversity than its institutional counterpart.
- Taiwan – A strong sensitivity to price is not apparent across retail investors, allowing fund managers to charge higher TERs than in Singapore or Hong Kong, for example. Retail investors in Taiwan do exhibit a preference for specialist providers, albeit those with the capability to offer funds across many asset classes.
- South Korea – The Taiwanese preference for a specialist provider is echoed by the South Korean retail fund market. In this market segment, investors face the highest TERs. The supply of funds is restricted and the master-feeder structures add further layers to the distribution process. In contrast, government policy aimed at encouraging foreign inflows to the institutional fund market has resulted in South Korea having the lowest TERs across the four institutional markets analysed.

Asia has long been perceived as a major opportunity for the global fund management industry, but this analysis underpins the great diversity to be found in just these four markets, let alone the rest of the region.

Nevertheless, by providing an evidence-based view of investor preferences across different distribution channels and markets, this research offers initial insights to the fund purchase decision that may serve as a helpful resource for those wishing to maximise the sales opportunity.

6 Data and Methods

All data underpinning this study are provided by Lipper, a Thomson Reuters company. The data used for this research covers a five year period ending 30 September 2014.

Three broad stages of analysis were undertaken. First, it was necessary to define the relevant portfolio of funds to be studied and identify where each fund is registered for sale. Second, a metric of product range was devised for each fund promoter such that it could be included in a quantitative model. Finally, a model was designed to estimate the correlation coefficients between sales, and price, product range and performance, and establish whether any significant relationships exist.

1. Constructing the portfolio

From an original fund universe that contains all funds of companies already distributing into Asia, a number of thresholds were applied to reduce the study portfolio to a more manageable size. Excluded from the analysis are: sub-funds of larger funds, funds that merged subsequently, liquidated funds, funds for which TNA data are unavailable, and funds beneath a minimum size threshold of USD10 million at the cut-off date. Also excluded from this particular study are all domestic funds.

The resultant portfolio of cross-border funds then was examined to identify those funds that are registered for sale in one of the following countries: Singapore, Hong Kong, Taiwan or South Korea. As cross-border funds are classified generally as 'international', this involved a highly detailed exercise to scrutinise all those countries where a fund is registered for sale, and capture those funds that are registered for sale specifically in one of the four Asian countries that are the focus of the study. It is important to note that, where a fund has been identified as being registered for sale in a particular country, it may be registered for sale additionally in other countries. Therefore, it is not appropriate to add the country portfolios together to reach a 'total market size' figure. The individual country portfolios are highly pertinent to each country but they are not additive.

2. Establishing a metric of product diversity

The question was posed: how does product range across asset classes affect sales? In order to operationalise 'product range', a quantitative metric was devised that reflects the two core components of diversity: richness and evenness.
In this context, richness refers to the number of asset classes offered by a company, while evenness reflects how evenly a company's funds are distributed across those asset classes.

For example, if one company offered funds in all major asset classes but the vast majority of its TNA were in bonds, the company would not have an especially wide effective product range; high richness, low evenness. Equally, another company might offer exclusively equity and bond funds, with its TNA perfectly divided across the two asset classes; low richness, high evenness. Such a company would be less diversified than one which offered a perfectly even split across all asset classes; high richness, high evenness. So, the metric used must combine both richness and evenness to provide a true reflection of product diversity.

The metric adopted for this study is based on the well-established Herfindahl–Hirschman index, devised originally as an indicator of market concentration. The index is calculated for each fund promoter, for each market segment, for each country; capturing product diversity both by TNA and by number of funds. Thus, each diversity metric reflects the product range offered by a fund promoter to the specific investor in question.

3. Measuring the impact on sales

It is hypothesised that fund sales are a function of price, product range and performance (amongst many other variables). In other words, the variation in a fund's sales momentum may be explained partially by the movement in a fund's price (total expense ratio), by the product range across asset classes offered by the fund promoter, and by the performance of the fund.

To test the hypothesis, the study completed a multivariate linear regression analysis. This is a procedure that estimates the correlation coefficients of the independent variables – price, product and performance – with respect to the dependent variable, fund sales.

Through this procedure, the effect of price on sales, for example, is measured while keeping the other two independent variables constant. The direction and power of each correlation coefficient then is assessed for statistical significance. Reliability of the correlation coefficients was identified at different confidence levels (or strengths): 99%, 95% and 90%. A confidence level of 99%, for example, indicates that there is a 99% chance that the results would be evident if the variables were related. Alternatively, there is only a 1% chance that the results would be evident if the variables in question were unrelated.

Cumulative performance was calculated both in absolute terms and relative terms (out- or underperformance of the relevant fund sector benchmark index), over 1-year, 3-year and 5-year periods. Annual data for the correlation analyses were taken over the twelve months to 31 August each year. Complete definitions of all variables may be found in the Glossary of terms.

The statistic, R-squared, in a regression analysis indicates how well the independent variables in a model (price, product and performance) explain all the variation in the dependent variable (sales); in other words, how well sales might be predicted by movements in price, product range and performance. Unsurprisingly, while the correlation coefficients indicate some real relationships across markets between the independent variables and the dependent variable, R-squared is low in all cases. This means that, whilst some significant and reliable correlations have been found, the study is not suggesting that price, product and performance are the main drivers of net inflows. A low R-squared result appeals to common sense. A good example is the outflows from emerging market funds witnessed whenever rumours circulate that the US Federal Reserve may be about to tighten rates. These movements in sales triggered by macro factors far exceed any effect from increasing TER or a drop-off in performance.

7 Glossary of Terms

Asset class	The primary asset of the fund: equities, bonds, mixed asset, money market or 'other'. 'Other' could include: alternatives, commodities, or real estate.
Cross-border	If less than 80% of the fund's assets come from one country, the fund is defined as cross-border.
Currency	The base currency used by the fund in its financial statements and published data.
Domestic	A fund is allocated to a specific market and defined as domestic if more than 80% of the fund's assets are sourced from that country.
Estimated net sales (ENS)	An estimate of the net inflows to a fund in a given time period; inflows minus outflows.
Institutional	An institutional fund is intended specifically for institutional investors. Institutional funds typically levy a large minimum investment and a lower management fee structure.
Performance	Performance, also known as total return, is a measure of the change in price, including capital gains distributions, dividend distributions, and interest payments, over a designated period of time. Interest payments and dividends are assumed to be immediately reinvested.
Price (TER)	The fund's total expense ratio (after waivers/reimbursements are subtracted, but before expense offsets/brokerage service arrangements are subtracted), as reported in the financial highlights in the annual report.
Product diversity	A measure of the extent to which a fund manager's product range is diversified across asset classes. The Herfindahl–Hirschman index combines both the number of asset classes offered and the distribution across those asset classes (by both TNA and number of funds).
Promoter	The name of the fund company/promoter of the fund.
Registered for sale	The countries in which a fund is sold, based on registration with a local regulatory body. The information is provided either by the fund promoter or by a third party (e.g., local trade associations).
Relative performance	The difference (expressed as a percentage) between the total return of the fund and the total return of its benchmark index; out- or underperformance.
Retail	A retail fund is intended specifically for retail investors: individuals who purchase their own units/shares in a particular collective investment.
Sales momentum	A measure of sales growth, calculated as a percentage of estimated net sales (ENS) at the end of a particular time period divided by total net assets (TNA) at the start of that time period.
Segment	The segment of the fund market to which sales are distributed: cross-border institutional, cross-border retail, domestic institutional or domestic retail.
Total net assets (TNA)	The total net assets (TNA) of the fund. TNA represents the total funds under management, net of fees and expenses, at a particular date.

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