

The opportunities and challenges for Asset Management firms in times of transition

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The last 10 months

- Fully correlated markets, theory breaks down, models fail.
- Trading volumes erratic, liquidity in some asset classes volatile/thin
- Regulatory responses distort previous dynamics
- Some institutional clients rush for the doors
- Retail clients stay where they are

The last 10 months

- Lehman mini-bond debacle (HK, Singapore)
- Structured product (financial) impact in banks distributing them
- Gun-shy distributors, private banks and regulators
- Public loses confidence in distributors and regulators, protests
- Life insurance companies caught up in the mess

What has been the impact on the traditional fund management industry?

- Significant reduction in revenues due to market movement
- Industry moves to reduce costs (20-30%)
- Preference for cash from many PMs, leading to underperformance
- Investors build up cash, yields fall to almost nothing
- No fees on cash funds either!
- Fears of retail client redemptions
- Uneconomic fund sizes leading to financial strain

Challenges for the industry now

- Simplicity and transparency
- Meeting new regulatory requirements
- Closing small funds
- Coaxing investors out of cash
- Continuing distributor fears
- What do investors want? (they don't know...)

Challenges for the industry now

- Planning when revenues are down
- Distribution landscape will change again
- Small managers may be vulnerable
- Consolidation phase just beginning
- Alternative fund performance dispersion is very wide
- Plenty of good staff available but no budget to hire

Opportunities for fund managers (Internal issues)

- Time to review and rebuild teams
- Focus on less, clear objectives, get rid of non-strategic activities
- Reduce bureaucracy
- Flight to quality/simplicity, reflected in business model
 - Reduce run-rate by focusing on permanent cost reductions
 - Preference for variable costs over fixed costs

Opportunities for fund managers (Investment issues)

- Be as sceptical as our clients are of us
- Fundamental research/market sentiment
- What drove the last bull market will be in the back seat now
- Prepare for inflationary scenario
- 15 year treasury bull market, mean reversion?
- Efficiency, market impact, compliance, get it right

Opportunities for fund managers (Client issues)

- Clients want communication, not sales pitches
- Institutional market is strong but funding slow
- Low risk equities
- Most SWFs overweight treasuries, lower real asset exposure
- Some big institutions will move quickly over the summer