

Good News for Managers in Asia, as Assets Spread Beyond the Largest Institutions

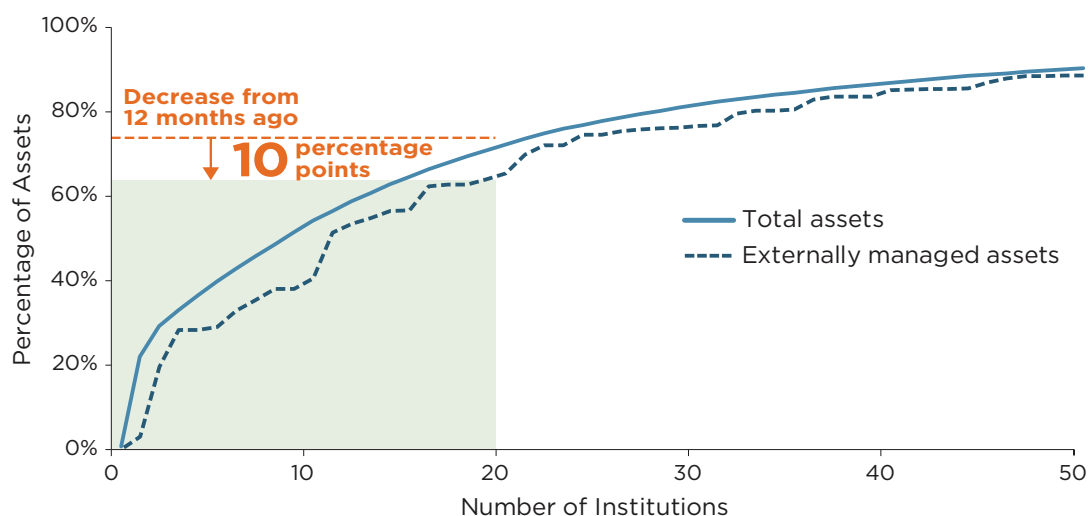
2019 Greenwich Leaders: Asian Institutional Investment Management

Q3 2019

Asian institutional assets, which traditionally have been concentrated in the portfolios of a relative handful of behemoths, are spreading to a broader universe of institutions. That's good news for global asset managers competing for business in Asia, who will be less reliant on relationships with a few powerful gatekeepers and who expect the flattening of the market to increase the pool of “outsourced” assets up for grabs.

The bulk of Asian institutional investment assets are held by a group of two dozen mostly government-sponsored investors such as sovereign wealth funds, central banks, and public pension and social security funds. However, as shown in the graphic below, the share of total assets held by the region's 20 biggest institutions declined by about 10 percentage points over the past year to approximately 65%. That decline is driven by a more meaningful degree of outsourced assets seen among a bigger group of Asian institutions, ranked roughly 21–50 in terms of assets under management.

CONCENTRATION OF ASSETS



Note: Based on 183 institutions.
Source: Greenwich Associates 2019 Asian Institutional Investors Study

Reduced Concentration, Increased Democratization

This shift is important to asset managers for two reasons. First, the spreading of assets among a broader group of institutions will help democratize the Asian institutional marketplace, meaning that the historic influence of the biggest and most powerful institutions will be eroded as institutions in the next tier grow their portfolios. The effects of this phenomenon are already visible among asset managers. Over the past 24 months, the top asset managers in Asia have been building out their regional capabilities in order to sell to and service a wider and more dispersed universe of clients. This has contributed to the growth of many managers, including Morgan Stanley Investment Management and PIMCO, the 2019 Greenwich Quality LeadersSM in Asian Institutional Investment Management.

Greenwich Quality Leaders — 2019



Overall Asian Institutional Investment Management Quality

Investment Manager

Morgan Stanley Investment Management
PIMCO

Note: Based on interviews with 132 institutional investors.

Source: Greenwich Associates 2019 Asian Institutional Investors Study

“In the past, asset managers who made major investments to scale up their businesses in Asia faced the real risk of simply being shut out by the small number of gatekeepers who controlled most institutional assets,” says Greenwich Associates Managing Director Markus Ohlig. “With a bigger and broader universe of mid-tier institutions with meaningful assets to invest, investment managers can build their businesses more confidently.”

INTERNALLY, ASIAN INSTITUTIONS FOCUS ON ASSET ALLOCATION, RISK MANAGEMENT

As Asian institutions rely more on external firms to manage assets, they are focusing internal resources on higher-level tasks such as portfolio allocation and risk management.

Asian institutional investors name asset allocation and managing market volatility as the top two concerns for their portfolios in the coming year. Comments from two study participants seem to capture the thinking of many institutions, which are looking to establish effective internal capabilities to address these and other concerns, while incorporating insights and advice from asset managers:

- “Expect to better manage asset allocation, market volatility and portfolio risk by working more closely with external managers that have built strong credibility of investment capabilities.” – Asian central bank
- “Our strategy is to diversify our investments by using various fixed-income products and leveraging different external managers’ strengths. For government regulation, we have developed an internal compliance team to cope with the changes more efficiently.” – Asian insurance company

One thing Asian institutions seem to have no intention of doing any time soon is turning to investment consultants for assistance in any of these areas. Only 18% of Asian institutions employ an investment consultant—a share that has actually declined somewhat since 2016. It’s also the world’s lowest usage rate. In the United Kingdom, 94% of institutions use a consultant. In the United States that rate is 88%. Even in continental Europe, a region known traditionally as unfriendly to the consulting industry, 36% of the institutions use a consultant.

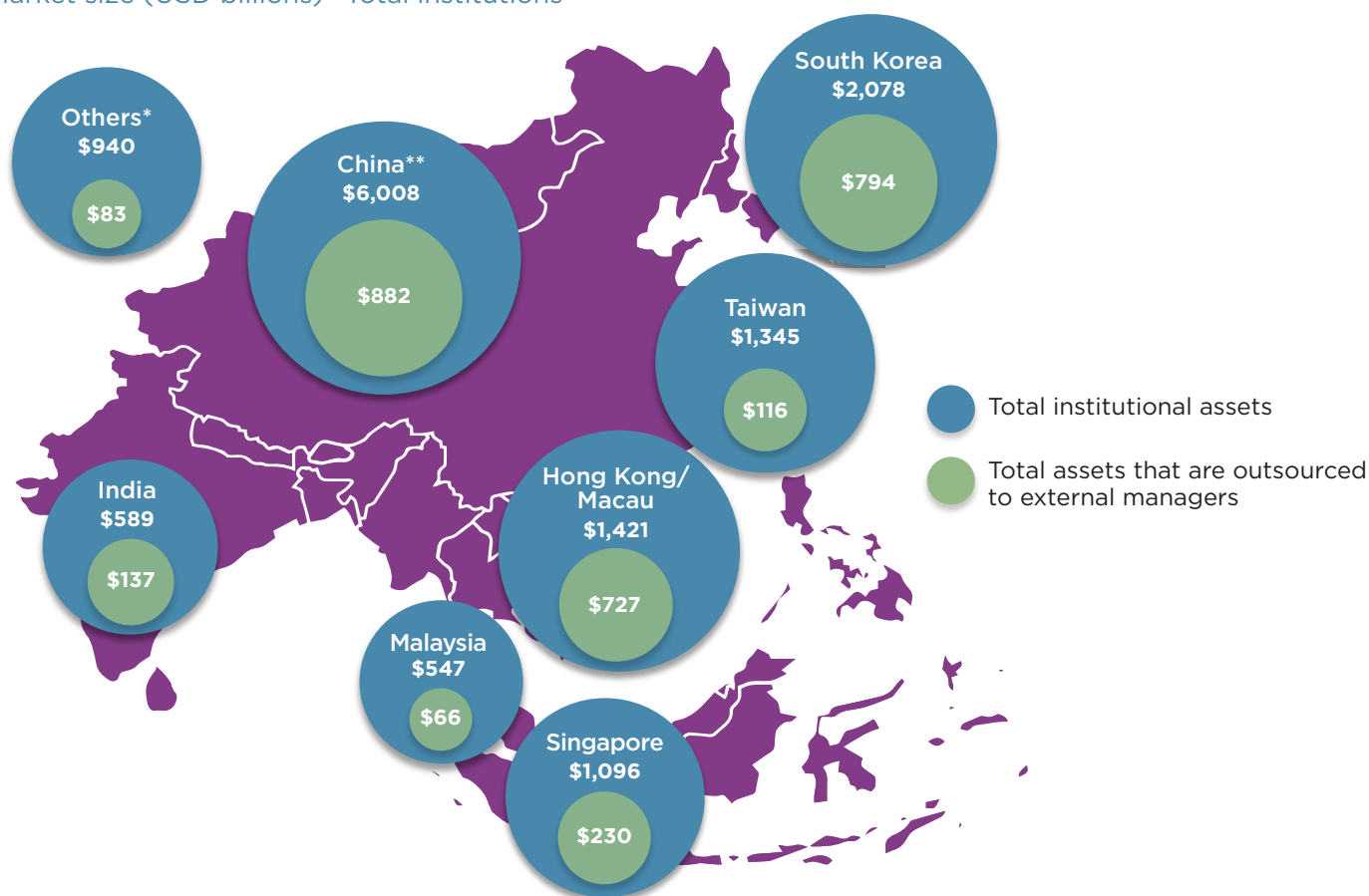
Flattening of Market Means More Outsourced Assets

The second major implication of the flattening of the marketplace is its potential to fuel the growth of outsourced assets. The pool of Asian institutional assets available to external asset managers grew from just 16% in 2012 to 23% in 2018. Over the past 12 months, that share has been relatively flat, due mainly to the fact that most outsourced assets are invested in risk assets—as opposed to fixed income, which the biggest Asian institutions generally manage internally. During the 12-month window covered in the most recent Greenwich Associates Asian Institutional Investors Study, Asian equities and other risk assets performed poorly. It was that poor performance and its effect on valuations—and not any shift in the outsourcing practices of Asian institutions—that caused the share of outsourced assets to level off last year.

Greenwich Associates expects the growth in outsourced assets to accelerate going forward, driven in part by the de-concentration of the marketplace. Simply put, the biggest institutions have the biggest internal investment infrastructure and are more inclined to manage assets in-house. Mid-tier institutions have fewer resources with which to build internal investment capabilities and, generally, less desire to take on the challenging task of managing large portfolios of equities and other risk assets. As a result, as assets flow to smaller institutions, they should also flow to external asset managers.

INSTITUTIONAL ASSET POOLS BY COUNTRY

Market size (USD billions)—Total institutions



Note: Based on 180 institutions. *Others include Bangladesh, Brunei, Cambodia, Indonesia, Philippines, and Thailand. **\$3.1 trillion in China are SAFE assets, most of which are not accessible to outside investors. China also includes assets from insurance companies which are not yet outsourced.
Source: Greenwich Associates 2019 Asian Institutional Investors Study

Surging Demand for Alternatives, International Assets

Portfolio allocations will also fuel growth in outsourced assets. Over the next three years, Asian institutions participating in the Greenwich Associates study are planning to significantly expand allocations to infrastructure, private debt and private equity, as well as to international/global equity and fixed income. All of these asset classes—especially the alternatives—are areas in which institutional investors are least likely to attempt internal management and most likely to hire external managers. Meanwhile, institutions plan to hold allocations stable or even reduce allocations to domestic fixed income and other asset classes in which they are most inclined to manage assets internally.

In keeping with these long-term plans, the share of Asian institutions planning to hire a new external manager in alternatives has climbed every year, from 13% in 2016 to 21% in 2019. The share of institutions reporting plans to hire a manager for equities jumped to 23% in 2019 from just 16% the prior year.

“Almost half of Asian institutions hired at least one external manager last year, and 57% plan to hire a manager in the next 12 months,” says Greenwich Associates consultant Parijat Banerjee. “Overall, it’s a favorable time for managers, and the decentralization of assets should help sustain that environment going forward.”

ESG AWARENESS GROWING AMONG ASIAN INSTITUTIONS

One in three Asian institutions takes environmental, social and governance (ESG) considerations into account when hiring external asset managers. ESG has gained the most traction in Thailand, where 70% of institutions consider these factors, followed by Taiwan at 53%, Hong Kong at 48% and China at 44%.

Over the past 12 months, the share of Asian institutions reporting that they track the carbon exposures of their portfolios nearly doubled. Although that proportion still lags far behind that found in Europe, about a quarter of Asian institutions say they now track carbon exposures or plan to start doing so in the next 12 months.

“Growing awareness of ESG is just one more factor contributing to demand for external asset managers, since few Asian institutions have the internal expertise required to implement these considerations effectively into their investment processes,” says Markus Ohlig.

Managing Director Markus Ohlig and Principal Parijat Banerjee advise on the investment management market in Asia.

METHODOLOGY

Between January and March 2019, Greenwich Associates conducted 152 interviews with the largest institutional investors in Asia. Senior fund professionals were asked to provide detailed information on their investment strategies, quantitative and qualitative evaluations of their investment managers, and qualitative assessments of those managers soliciting their business. Countries and regions where interviews were conducted include Bangladesh, Brunei, Cambodia, China, Hong Kong/Macau, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand.

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