Kenanga Investors

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TECHNOLOGY DRIVING FUND MANAGEMENT FORWARD

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By The Personal Wealth Team

The digital revolution and fintech wave that are sweeping the investment landscape have turned the global asset management industry on its head. This can be seen in the rise of robo-advisory platforms, artificial intelligence-based processes and big data analysis.

Asset management companies in the country are responding to these trends and are exploring or looking to incorporate such technologies in their operations. The aim of these innovations is to enhance the customer experience, widen distribution channels, lower operation costs and improve investment returns.

Chan Ai Mei, chief marketing and distribution officer at Affin Hwang Asset Management Bhd, says technology and innovation play a vital role in determining the success of asset management firms, especially when it comes to reaching out to the younger generation.
"It is necessary to appeal to a new generation of investors who are more digitally savvy.
Asset managers globally are often challenged when it comes to luring millennial investors, who tend to be always online or connected and socially conscious but also often fickle and price-sensitive," she adds.

"If industry players failed to ride this trend, asset managers would be limiting themselves to the same subset of investors and fail to draw in this new group of investors who desire more convenience and automation, as well as proximity and engagement with their asset managers." Technology's role in the financial services industry will be even more critical as it is an intangible market. So, there is a possibility of the entire value chain being digitalised, says Kenanga Investors Bhd CEO Ismitz Matthew De Alwis. "We see opportunities for this in client management, product innovations and expansion of distribution networks, among others. However, we should not completely write off the human aspect of the business," he adds. "Due to the nature of the products, the consumer may not have the expertise or time to fully understand a particular product before taking it up. There are still needs and, to a certain degree, some hand-holding from a financial consultant to help customers understand the products before they can be fully on-boarded."
PMB Investment Bhd CEO Najmi Mohamed says no industry can escape the digital disruption. "Today's clients expect a new kind of experience that is more informed,

personalised and transparent. They want information more quickly than ever before," he adds. "We firmly believe that for PMB to grow, we need to transform our business and have a clear and coherent investment strategy. In fact, starting this year, we are embarking on replacing our existing system with a new one that can offer integrated, truly end-to-end solutions for our clients. It will also cover the front-end, back-end, customer-centric call centres, customer websites and mobile applications, among others." Pheim Asset Management Sdn Bhd chief strategist and industry veteran Dr Tan Chong Koay says asset management firms that are slow to adopt new technologies will lose out in the long term. "The acceleration of new and disruptive technologies will bring both opportunities and threats to the fund managers of the future. These technologies could snatch away precious market share from fund managers who do not keep pace with the digital advancements," he adds.

"Asset management firms should focus on innovations that fully embrace advanced technologies such as AI, machine learning and big data analytics, especially in their investment management and distribution processes, to gain a competitive edge in the marketplace." Tan is on the lookout for advanced technologies to "improve our investment decision-making, especially in reading the market right, so as to outperform [the market] and benefit our investors".

WHAT FIRMS ARE DOING RIGHT NOW

AI and big data analysis are two areas that asset management companies are exploring. These technologies enable fund managers to collect data from various sources, analyse the data, predict market movements and quickly identify investment opportunities in the market. PMB's Najmi says many fund managers are going beyond traditional stock-picking methods and are using advanced analytical techniques and alternative data sets to stay ahead of the curve. "Investment managers are using innovative technologies, such as AI and other advanced analytical techniques, to improve their traditional investment processes. This is not only for decision-making but also to find better ways to execute trades. The number and type of alternative data sets seem to increase on a daily basis," he adds.

"Fund managers who seek to push the utilisation of different technologies, analytical capabilities and alternative data sources to generate alpha may be positioned for sustainable growth." Kenanga's De Alwis is also a proponent of AI and big data analytics. He says the firm has already incorporated technological elements into its investment processes. "For instance, our investment risk analytics team is guided by a risk analytics digital platform. The platform collects data concerning benchmarks for risk monitoring and reporting. "It grants the team access to information such as the Sharpe ratio, Sortino ratio, tracking error, information ratio and Jensen's Alpha to measure performance risk. This has allowed us to derive a more accurate, transparent and holistic valuation. IT also allows us to have lower portfolio volatility exposure."

The fund house made its foray into AI last year when it launched Kenanga Global Multi-Asset Fund. It is the first Malaysian fund to leverage AI capabilities to identify short-term profit opportunities. This is done by predicting the relationship between pricing and volume data. The fund also constructs its portfolio with a focus on capital preservation by utilising AI forecasting capabilities.

Some asset management firms are using technology to enhance the service quality of their existing channels, such as their agency force. Some of them have established online portals to provide customers with direct access to key information on their investment portfolios. This allows investors to track their investments at any time and evaluate the quality of advice they receive from unit trust agents. "Asset management companies will have to invest more in the online platform to allow potential investors to buy products [directly] from them," says Wong Mien, CEO of TA Investment Management Bhd.

Public Mutual Bhd CEO Yeoh Kim Hong says its agents are provided with computer programmes and mobile applications to allow them to access products, markets and investor information faster. Meanwhile, investors can use its electronic platform to keep track of products and investment information as well as make product comparisons. According to CEO Raymond Tang, Eastspring Investments Bhd has launched an "investors and agents portal" that provides them with direct access to key investment information. PMB, on the other hand, is developing a "digital dashboard" to improve the quality of its unit trust agents. "This is done by enhancing the advisory process with notifications and alerts and providing a holistic view of each customer's account.

The goal is to improve the quality of adviser-customer relationships by reducing the time it takes when it comes to daily processing activities," says Najmi, who is planning to take the digitalisation plan further by establishing a "direct investment purchase channel via web, mobile and email". Asset management companies are also making sure that their intermediaries, such as unit trust agents, are able to play a more important advisory role in the near future. Agents can no longer see themselves as salespeople selling unit trusts as a product; say the leaders of local asset management firms. "They need to focus more on the role that technology cannot play, namely building better personal relationships with clients and offering holistic financial planning solutions," says PMB's Najmi. Danny Wong, CEO of Areca Capital Sdn Bhd, says the firm is moving towards providing clients with holistic financial planning services. "We obtained our financial planning licence from the Securities Commission Malaysia last year."

On the technological front, there has been a proliferation of robo-advisory platforms that offer investors simple financial advice and low-cost investment solutions. If the developed markets are an indicator of where emerging markets such as Malaysia are heading, the robo-advisory space is where local asset management firms want to be.

Betterment, one of the largest robo-advisory platforms in the US, which started operations in 2008, says it saw 320,000 customers last year while its assets under management (AUM) grew to US$12.5 billion. In 2010, it had only 900 customers and US$3.3 million under management. While Betterment's AUM is smaller than those of traditional asset management firms in the US, it shows the platform's huge potential and the challenge it could pose to some incumbents. However, fund management experts believe that robo-advisory platforms will not disrupt the local market anytime soon. The key reason is that a large number of investors, especially those from the older generation, still rely on unit trust agents to make their investment decisions. Local investors, particularly the emerging affluent and high-net-worth individuals, still appreciate the human touch, says Areca's Wong.

Investor awareness of exchange-traded funds (ETFs) remains low. As many are not familiar with how such funds work, it is unlikely that they will put their money in robo-advisory platforms, which mainly invest in ETFs. The current distribution channel, which is to sell unit trust products through agents, will continue to prevail; says Affin Hwang's Chan. "The advances in technology will complement and supplement service delivery [rather than replace it]. It will enhance the client experience and empower investors by providing them with convenience and information at their fingertips," she adds.

The passive investing strategy, which has gained a lot of traction recently, is another area posing challenges to traditional asset management firms that offer actively managed funds. According to Deutsche Bank and Bloomberg, the global ETF industry hit US$413.1 trillion at the end of last year, compared with US$205.6 trillion 15 years ago. According to market and consumer data provider Statista, the number of ETFs worldwide reached 4,779 last year from only 276 in 2003. "ETFs have increased their presence in the equity markets. According to Bloomberg, a little more than a third of all assets in the US are now in passive funds, up from about one-fifth a decade ago," says Pheim's Tan.

MIXED RESPONSE TO ETFS LOCALLY

"Flowmageddon" was the term used by US investment research and management firm Morningstar to describe the huge amount of money flowing into the exchange-traded fund (ETF) space in August 2016. According to Deutsche Bank and Bloomberg, the total assets managed by ETFs globally reached USS3 trillion for the first time ever that year. By end-2016, the figure had hit USS3.51 trillion. Last year, it was more than USS4 trillion. The fund flows of ETFs became so big that they were partly blamed for the correction in the US stock markets in February. This prompted newly appointed US Federal Reserve chairman Jerome Powell to state that the funds were not the main contributor to the correction. Despite the kind of traction ETFs have globally, especially in the developed markets, many asset management firms are hesitant to launch these funds in Malaysia, saying that the awareness of these types of products is still low in the country. However, some of them are certain that ETFs will eventually take off in the future. Those that have launched or shown interest in offering ETFs include Affin Hwang Asset Management Bhd, PMB Investment Bhd, Pheim Asset Management Sdn Bhd and Kenanga Investors Bhd.

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Affin Hwang's chief marketingand distribution officer Chan Ai Mei says the fund house launched its first ETF - the TradePlus Shariah Gold Tracker ETF — in December last year. "We believe ETFs are steadily gaining traction despite the significant ground to cover before we catch up with developed markets such as the US," For now, the company is focusing on building the size of its gold ETF so that it can achieve better economies of scale which, in turn, will lower the annual management fee imposed on ETF investors. PMB Investment CEO Najmi Mohamed plans to launch an ETF in the future. He says these funds have seen significant inflows globally in recent years and they will eventually make their way to Malaysia, The passive investing strategy is also expected to be more popular, along with the financial technology (fintech) trend, which will give retail investors greater ability and flexibility to invest on their own. Kenanga Investors CEO Ismitz Matthew De Alwis says while the fund house does not have a hard target for new ETF products, it is exploring the various opportunities in the space, such as offering ETFs through a digital investment platform (also known as a robo-advisory platform), "We are currently seeking opportunities to potentially team up with other established ETF fund managers and stakeholders to jointly launch new ETF products locally." Public Mutual Bhd, Eastspring Investments Bhd, Areca Capital Sdn Bhd and TA Investment Management Bhd have no plans to launch ETFs in the near future.

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Technology driving fund management forward

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