

Asset & Wealth Management 2025

The Asian Awakening

January 2019





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Executive summary



“China is a sleeping giant. Let her sleep, for when she wakes she will shake the world.”
– Napoleon Bonaparte

The APAC asset and wealth management (AWM) industry is expected to be the centre for global AuM growth in the coming years. With the opening up of economies in the region, we expect to see more international asset managers set up shop directly in the area, as well as continued growth in local boutiques where regional talent starts to venture outside their familiar nest to spread their wings. The ongoing industry revolution elsewhere in the world will see fees, products, distribution regimes, regulation, use of technology, and people skills change dramatically in the coming years.

APAC AuM is set to grow faster than any other region globally. We expect¹ it to rise from USD 15.1 trillion in 2017 to USD 29.6 trillion in 2025². Much like our global estimates³, this growth will likely be uneven in the more developed APAC markets and fastest in developing markets. However, uniform challenges across the region do persist. Geopolitical issues, trade tensions, tax issues, and a possible market correction are some of the various issues that could disrupt the industry.

The next decade will see a myriad of changes which will repaint the landscape for AWM, and asset managers will need to be prepared, and to some extent, think far ahead to identify possible opportunities and pitfalls. A number of these trends,

as highlighted in our global AWM Revolution 2025 report, entitled “Embracing Exponential Change”, will be further expounded in this report, albeit with a more Asian perspective.

By 2025, we believe that these trends will propel the APAC AWM industry to global heights. Scale, internationalisation and technological adoption will characterise the large global firms in the region. Smaller, specialist firms in the region will prosper by becoming strong niche players, offering excellent performance or providing services for the larger global players to enter the market.

As the AWM industries of the region develop, vast changes are expected and we believe that four points are of extreme importance:

- While the APAC region will remain largely fragmented in the medium term, this is starting to change. By 2025, we believe that there will be a realisation that regionalisation will be necessary for APAC to truly compete;
- The current asset management hubs of the region, Singapore and Hong Kong, will be joined by a third, namely Shanghai;
- Asia will be one of the largest infrastructure investment regions globally. This will be driven by the massive growth expected from the China’s Belt and Road Initiative (BRI) and other initiatives across the region; and

¹ All views in this document are based on PwC opinions, supported by third-party verified information.

² PwC AWM Research Centre analysis.

³ PwC, Asset & Wealth Management Revolution: Embracing Exponential Change, 2017.

- Inadequate retirement funds and savings will be a threat to the sustainability of many ageing populations in Asia. A fundamental shift in how pensions and savings are managed, and the ability of asset managers to help plug the investment return gaps before it is too late becomes even more critical.

As part of this research, we also believe that a number of transformations could take place by 2025 across APAC, all of which have significant implications on how asset managers today need to plan for the future. The purpose of this is not to say whether, or when, the transformations will happen. Rather, what if they do? To challenge the thought processes of asset managers and test their future-readiness, we have identified a number of potential future industry scenarios in our section - Seeing the Future.

These potential “What if” scenarios include:

- Formation of a single funds platform, under the ARFP, with multiple regional-to-country bilateral agreements, followed by the establishment of a direct distribution link between the ARFP constituents and the Latin American (LatAm) market;
- Technological adoption in Asia increases to the extent that online distribution, through robo-platforms, retail shopping, and other social media platforms completely overtake the traditional distribution market;
- A regional settlement platform harnessing the practical applications of blockchain, for all equities, bonds and derivative trades across key markets in the region becomes a reality; and
- Digital identity on the Cloud becomes a norm, where all financial and regulatory information is digital and available online real-time to investors and regulators.

The ongoing global industry revolution will see fees, products, distribution regimes, regulation, use of technology and people skills change dramatically in the coming years. To this beginning, we believe that asset managers are well-placed to seize the opportunities this phenomenal growth provides, whilst being cognisant of the challenges and threats emerging in a rapidly shifting landscape. This is the century where the Asian AWM industry is set to shine brightly.

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From sprint to marathon: Playing the long game to win in Asia

We expect change in the Asian AWM industry to continue at an increasingly rapid pace. Asset managers need to become business revolutionaries or disrupters in order to survive and prosper in this environment. This is especially true for asset managers operating in the APAC region with its diverse array of markets and maturity levels providing abundant growth opportunities in the coming years. Now is the time for asset and wealth managers to act on these ideas and seize these opportunities.

Fund markets set for exponential growth

APAC's market dynamism provides advantages and opportunities that are impossible to find elsewhere. These will remain despite economic and geopolitical headwinds sweeping the region. From developed AWM markets such as Australia, Japan, Hong Kong and Singapore, to burgeoning India and fast-emerging China, the growth is undeniable, and provides both local and international asset managers with strong opportunities for scale and returns.

Competition in the region's markets is increasing as the revenue-pie grows. High equity yields – compared to other regions and local bond yields – are propelling strong medium-to-long term growth prospects. If protectionism remains limited and geopolitical activity remains relatively

sanguine, we expect APAC AuM to grow from USD 15.1 trillion in 2017 to USD 16.9 trillion in 2020, and to USD 29.6 trillion by 2025, a total compound annual growth rate (CAGR) of 8.7% (see Figure 1). Retail (mutual) funds' (including ETFs) estimated AuM is expected to more than double between the same period to USD 11.9 trillion, and institutional mandates are expected to grow at a similar rate. We anticipate a boom in alternative asset popularity among Asian investors – especially Real Estate and Infrastructure investments – as alternative AuM grows from USD 2.9 trillion in 2017 to USD 6.9 trillion by 2025, a staggering CAGR of 11.7%.

A rapidly ageing population, more so in certain APAC countries than the rest of the world, has led to pension funds speedily searching for new investment opportunities in order to provide the necessary returns. Alongside this, expanding amounts of mass affluent⁴ and HNWIs⁵ in the APAC region provide opportunities for asset managers to service these growing segments, which grew by 8.6% and 8.1% respectively between 2015 and 2016, far outpacing the more developed regions of Europe and North America. As investors' wealth grows and the newly-wealthy become more comfortable entrusting their financial assets to digitally orientated firms, wealth managers have a large window to seize an almost USD 65.5 trillion opportunity by increasingly targeting retail clients.

⁴ Mass affluent are defined as those having wealth between USD 100,000 and USD 1 million.

⁵ HNWI are defined as those having wealth of USD 1 million or more.

Figure 1: Total client assets across APAC in USD trillion

Clients	2007	2012	2014	2015	2016	2017	2020e	2025e
Pension funds	2.1	3.2	3.8	3.9	4.0	4.6	5.8	6.8
Insurance companies	4.8	6.7	7.5	7.7	9.1	10.5	11.7	13.7
Sovereign Wealth Funds (SWF)	1.5	2.1	2.6	2.7	2.8	3.1	4.0	5.7
HNWI	9.9	14.3	15.1	15.5	16.9	17.0	19.9	28.9
Mass affluent	14.2	19.6	19.8	20.4	22.1	22.3	25.9	36.6
Total Client Assets	32.5	45.9	48.8	50.3	54.9	57.5	67.3	91.7
APAC AuM	6.4	7.7	8.8	11.0	12.1	15.1	16.9	29.6
Penetration rate	19.8%	16.8%	18.1%	21.9%	22.0%	26.3%	25.1%	32.3%

Sources: PwC analysis. Past data based on OECD, World Bank, FSB, Credit Suisse, SWF Institute

There are, however, challenges that might affect growth. Unequal tax treatment with regards to fund passports, mounting concerns over geopolitical difficulties such as North Korea flexing its muscles, continued trade tensions between China and the US, or possible corrections due to market normalisation count among the various diverse issues facing asset managers and investors alike in Asia. Should these challenges continue or worsen, there would

likely be an impact on the financial services industry. In light of this, our conservative estimates predict a slower growth, with total AuM rising to USD 18.1 trillion by 2025.

Following global trends, intra-APAC's growth will, for the most part and on a percentage basis, be faster in developing markets than developed ones. Advanced asset management markets such as Australia, Japan, Hong Kong and Singapore will continue to grow, though they will be outpaced by growth economies of the region such as China and India who are experiencing strong flows associated with burgeoning asset management markets. The opening up of China's economy to offshore investors, India's decreasing interest rates and disinflation, and the overall continued growth of defined contribution (DC) pension plans across the region are accelerating people's adoption of investing. Over the next ten years, new frontier markets such as in Central Asia, Sri Lanka, Vietnam and Myanmar, to name a few, will fuel the increasing wealth being added to capital markets.



From sprint to marathon: Playing the long game to win in Asia

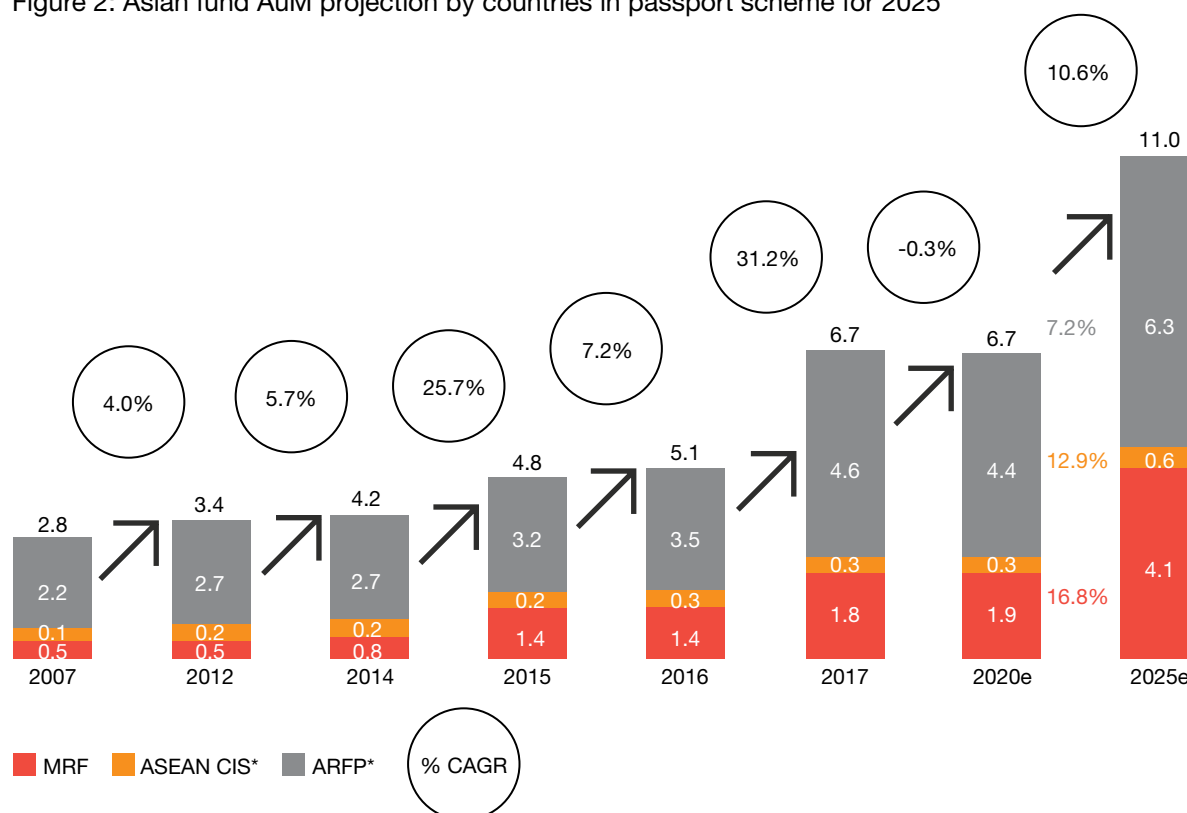
Succeeding where others fail

Ongoing demographic and technological changes, shifts in regulations, potential fee pressure, and fluctuating market growth in the APAC region will make it challenging for all managers to achieve their desired growth. Going forward, managers who achieve success will be those who beat the market by providing proven alpha, innovative product structuring, and ensuring that the client experience remains a strong element of their value proposition. Asset managers will have to act with purpose in order to deliver on these points.

APAC is immune neither to the effect of global regulations, nor to the wave of regulatory change sweeping across the world. Regulators and investors are demanding greater transparency and this will increasingly put pressure on fees – regulators in Singapore and Hong Kong are planning guidelines for managers regarding their fees for selling funds which could

potentially upend the existing fee sharing model. Additionally, Japan's regulator has released seven principles they expect financial institutions to follow which include clarification on fees and accessibility of information, and regulators in Australia are implementing new regulations requiring greater transparency and disclosure of fees and costs. Increased compliance, regulation, and technology costs will further squeeze profits across the region. Moves toward outcome-based solutions and the ever-growing share of passive strategies could push down the regional revenue pool. In the face of this, regulations are also providing asset managers with new opportunities; particularly in the area of passporting where the AuM of regional passport schemes is expected to increase from USD 6.7 trillion in 2017 to USD 11 trillion in 2025 (see Figure 2). As markets such as China, Thailand, and Indonesia continue to open up their markets to external investment, regional and global asset managers will find new avenues of growth.

Figure 2: Asian fund AuM projection by countries in passport scheme for 2025



Sources: ICI, Lipper, PwC Singapore, PwC AWM Research Centre analysis

Note: *Thailand is included in the ASEAN CIS and was removed from the ARFP to avoid double counting. When calculating AuM, we take into account all fund AuM for countries participating in said schemes.

Sums may not add to 100% due to rounding

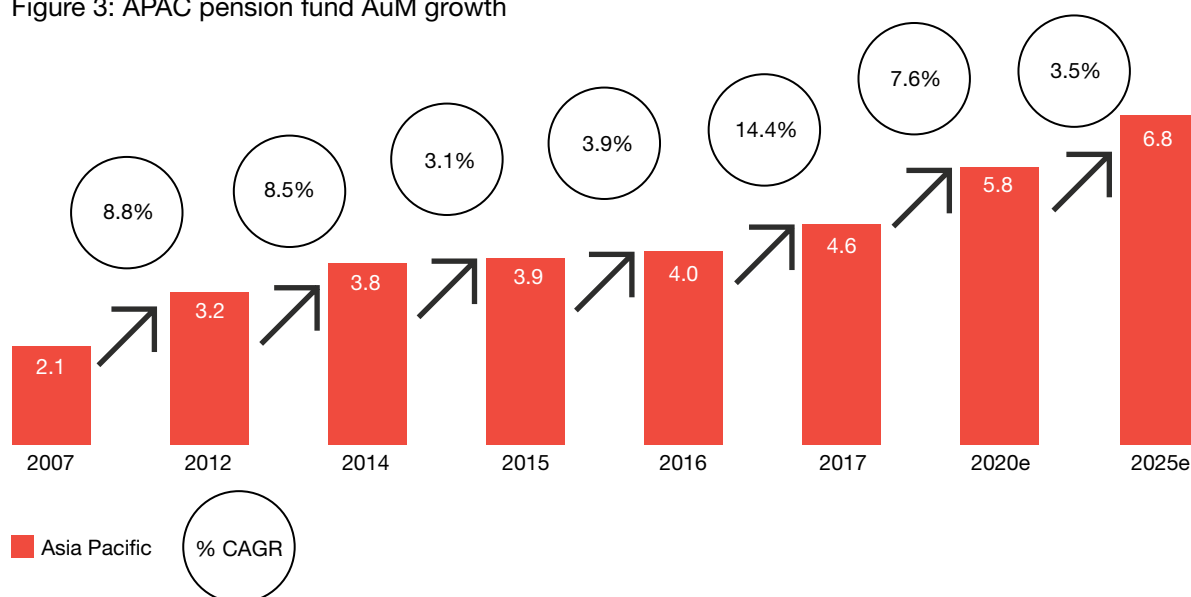
From sprint to marathon: Playing the long game to win in Asia

Despite uncertain growth across APAC markets in recent years, several areas provide strong potential for profit. As HNWIs and mass affluent investor numbers grow across APAC, asset managers will play an increasingly prominent role in servicing them. The number of billionaires rose by 103 between 2016 and 2017, a 14% growth, and increased their wealth by USD 700 billion in 2017 alone⁶. Retirement investing is another area where asset managers have the potential to expand, with several APAC economies, namely Japan, China, Singapore, Hong Kong, and Thailand, among the most rapidly aging economies in the world, and the need to fund retiring populations through defined benefit (DB) or DC schemes is already being felt across the developed APAC markets. Pension assets are forecast to reach USD 6.8 trillion by 2025, a CAGR of 5.01% between 2017 and 2025 (see Figure 3) and even a small shift in growth economies of the region – namely India and China – could see well-positioned asset managers receive a windfall of assets. This shift has already begun in China where recent regulatory change, notably the Third Pillar Pension Tax Initiative, is encouraging investment in pension insurance products. Under this new system, individuals receive a deduction on their income tax to invest in fixed-return, guaranteed-return and floating-return products. At withdrawal date, 25% of the benefit is tax free while the other 75% is taxed at a lower rate.

Passive investing – a driving force behind net flows in Europe and the US – is, with the exceptions of Australia and Japan, relatively immature in APAC, though the style is taking hold, and passive AuM is forecast to reach USD 5.1 trillion by 2025. Alternative assets on the other hand are attracting AuM from a range of investors chasing higher returns and real assets are expected to receive significant inflows as mass urbanisation across the region leads to increasing demands for power, water, and transportation infrastructure. Asset managers will play an increasing role as they move centre-stage and provide capital for these projects.

In addition to the growth in real assets, institutional and retail investors across APAC are ever more aware of sustainable investing in the forms of ESG and SRI products. These forms of investing are gaining in popularity across the region, though they are not as popular as in Europe and North America, with investors demanding more clarity and transparency in their investments. SRI investments in Asia ex-Japan grew by a CAGR of 7.6% over the period 2014-2016 and in Japan they grew at a CAGR of 724% over the same period, rising from USD 7 billion to USD 474 billion. This phenomenal growth was largely driven by the Government Pension Investment Fund's (GPIF's) focus on ESG and SRI investing. The rise of millennial investors is a large contribution of this growth in sustainable investing.

Figure 3: APAC pension fund AuM growth



Sources: OECD, World Bank, FSB, PwC AWM Research Centre analysis.

6 PwC and UBS Billionaires report 2018

From sprint to marathon: Playing the long game to win in Asia

This is because, in addition to possessing a focus on sustainable investing, millennials are much more digitally orientated and demanding, more financially literate, and want to engage across ‘digital-by-default’ platforms compared to older investors. Millennials’ preferences will change the entire investing value chain – and have already begun to do so – and asset managers will need to increase their offerings and access across research, transactions, and client servicing if they wish to capture their attention and business.

In line with millennials playing a larger role in the market over the next decade, the rise of online distribution has been particularly pronounced in the region, judging from the success of existing players who have emerged from China. The challenge in the coming years will be the ability of such platforms to offer more sophisticated products, especially as the region’s markets develop. Despite these challenges, online distribution platforms will continue to lead the way in terms of innovation compared to their traditional counterparts. This innovation, coupled with customers’ attraction to the strong returns and ease of investing, means these platforms

have strong growth potential. As the wealth management market in the region expands, especially as it begins to cater to digitally-orientated millennial investors, robo-advisers are expected to grow in popularity. A number of B2B robo advisers and ones aimed towards the middle-class market are already making inroads in a number of APAC markets and tie-ups with asset managers and banking distribution platforms are taking place. Asset managers will gradually need to consider their customer experience as part of their value proposition.

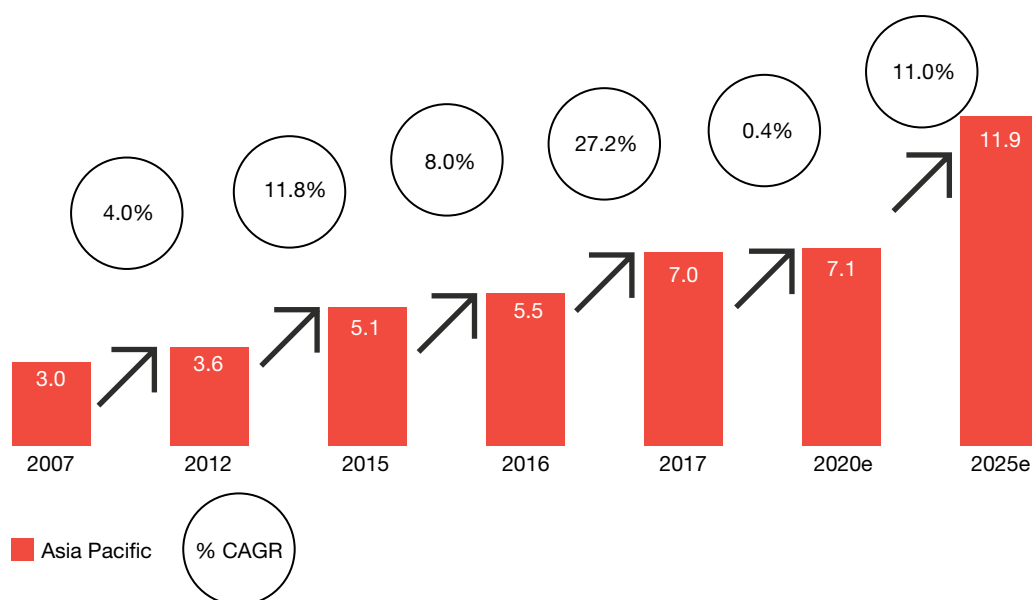
Shifting client preferences will alter the very face of AWM across APAC. The popularity of multi-asset solutions is likely to continue and will alter the product mix on offer. The decoupling of alpha and beta closet-tracking funds means managers will have nowhere to hide, and investors in Asia and globally alike will willingly pay for proven alpha, but not alpha fees for beta products. In the new normal, asset managers will need to consciously choose where they are focused, i.e. whether they are delivering solutions or whether they are simply building blocks to be incorporated into solutions by others.



The Indian middle-class which, for example, previously favoured traditional assets such as gold or residential property, has begun to shift to stock-focused funds. For the year that ended in March 2018, Indian investors poured a record USD 62.5 billion into equity-focussed mutual funds, an increase of 90% on the previous year⁷. With the growing recognition of mutual funds, we expect this trend to continue and for more households to move to financial products.

⁷ Association of Mutual Funds in India

Figure 4: Mutual fund AuM



Source: PwC AWM Research Centre analysis. Past Data based on ICI, Lipper, and PwC Singapore.

Note: Changes from previous reports explained by changes in methodology: we included more countries in the APAC region and we used different sources. Data missing for 2007 (Indonesia).



3

Asia awakens: Drivers of change

Buyer's market

Regulatory scrutiny protecting investors and investor scrutiny will lower fees going forward. As new investors enter the market, the industry will become increasingly digitalised and investors will look to managers who can tailor portfolios to their needs. Firms will need to combat fee pressure by reducing costs, and focusing on gaining new investors.

Power is increasingly shifting to investors' globally and in the APAC region. Market pressures to stay competitive are pushing down prices overall and fee transparency issues are rising to the fore. As the Retail Distribution Review (RDR) and Markets in Financial Instruments Directive 2 (MiFID II) are adopted throughout Europe and the US, APAC regulators have already begun considering the suitability of such regulations for their countries.

Pressure is not only coming from regulators. Investor scrutiny, especially from institutional investors who have a fiduciary duty to act in the best interest of their clients, is adding to the burden that asset managers face. Furthermore, investors are beginning to ask for digitalisation from their asset managers as a service expectation. While this represents an opportunity for asset managers seeking to tap into the new generation of investors, it will also add a layer of complexity and costs.

Regulatory pressure

Additional regulations are already being introduced and disrupting the established norm of the financial industry. Despite the heterogeneity of regulatory systems in the region, the outcome of these pressures is similar, with transparency surrounding fees and services increasing, and pressures on revenues, being felt.

With fees set to drop in the coming years, firms will need to focus on increasing net new sales in order to make up the difference. A report by DST kasina notes that asset managers would need to increase sales by between 15% and 38% to keep revenue stable if fees were to drop by 10bps⁸. Furthermore, while a commission-based model remains prevalent in Asia, with distributors receiving a retrocession from asset managers, these fee cuts will further impact the entire value chain. The RDR and MiFID II are beginning to shape the operations of global fund managers in Asia, as they look to streamline practices and operations. Asian branches of global distributors, mainly in Hong Kong and Singapore, have already begun assessing approaches that better lie within these frameworks.

⁸ DST kasina, The Impact of Changes in Distribution, 2017

Japan's Financial Services Authority released finalised principles regarding fiduciary duty, setting out seven overarching principles which will aid the economy in pursuing sustainable economic growth and the stable financial accumulation of Japanese household assets. In India, regulations of mutual fund mergers have been tightened to improve transparency and eliminate product ambiguity for investors. Similarly, a new regulatory framework in China will enhance market surveillance and transparency.

Regionally, this shift towards transparency surrounding fees and services, coupled with younger, tech-savvy investors turning to lower cost alternatives is set to increase pressure on fees and decrease margins. Asset managers who find ways to reduce costs for investors will continue to do well in coming years. Already, we are seeing the introduction of zero-fee funds in APAC. The impact of these will be watched avidly by investors and industry players alike.

Digital technologies: Do or Die

Technology is disrupting all areas of Asia's AWM industry. Robo advisers are expected to become more popular as a younger generation of investors enters the landscape, client engagement will increasingly become more digitised, and outsourcing or automating back and middle office will allow firms to reduce inefficiencies while concurrently reducing costs.

As the industry digitalises, an opportunity exists for asset managers to tap into the growing class of investors who will look for cost-cutting solutions. Asset managers must find ways to increase scale and target new market segments. They will need to look to their value propositions to ensure buyers are at the forefront of their minds.



Tech is enabling the shift in investments

Although tailored portfolios were traditionally reserved for HNWIs, robo advisers are slowly changing the game. Offering relatively low cost wealth management products and services through the internet and mobile devices, robo advisers are beginning to take off in the region.

One robo adviser, launched in February 2016, offers investments starting as low as USD 940. Using an algorithm based on the answers of nine simple questions, it determines the best investment combination from 6,000 ETFs. Another, which specifically targets Southeast Asian millennials, allows investors to start assembling their portfolio from as little as USD 50. Both offer investors an education portal alongside the platform. Competition to access the mass affluent and less affluent markets in the region is likely to start pushing investment prices lower and consequently, tailored portfolios will become a more common option.

There are hurdles that asset managers will need to overcome. Trust issues around robo advisers and their ability to handle investments are still prevalent in the region, however given that interest is growing we expect this to diminish quickly. The favourable regulatory environment in Asia around digital technology and FinTech solutions to financial advice, seen particularly in Singapore and Hong Kong, will allow the proliferation of new distribution channels to sprout. Nevertheless, given the individual market size, and fragmented jurisdictional requirements across Asia, robo advisers will more likely partner with large institutions to provide a quick go-to-market digital service platform rather than strike out on their own as independent financial advisory channels. We believe that robo advisers will become particularly popular in the region, when compared

to the US or Europe, due to the younger, more tech-savvy population. As this group tends to have less disposable income when compared to the more developed regions, robo advisers could be a successful option. Additionally, China has one of the largest direct digital distribution markets, meaning asset managers in China are well-positioned to make use of robo advisers.

Millennials' moves towards automated solutions are already reducing the need for the traditional wealth management models as robo advisers are beginning to take into account outcome-based planning, identifying clients' life goals and finding solutions that match. The abilities of these automated solutions are already reducing the need for human intervention in the wealth management process.

PwC research, however, suggests that while these tools will significantly improve service, relationship managers will still play an important role going forward for both HNWI and institutional investors. In the future, we expect a greater segmentation of and by wealth managers as clients are able, and willing, to pay differing amounts for service.

Digitising across the whole value chain to decrease costs and increase efficiencies is not solely about introducing robo advisers. Leveraging technologies in the back, middle, and front offices will provide possibilities to reduce costs, increase flows, and produce alpha. Making use of large data sets and technology to test investment strategies, find connections, and process data is changing the way asset managers operate, and is blurring the lines between traditional financial services companies and technology companies. Adopting tech throughout the whole value chain will help managers reduce fees and maintain current margin levels.

Middle and back office outsourcing

Outsourcing operations is becoming a viable option for APAC asset managers as developing regulatory requirements and a low-yield environment add ongoing pressure to costs and fees. Large AWMs are already automating or outsourcing back-office functions to a more efficient third-party provider. Outsourcing of middle-office services, while still nascent in Asia, due to a lack of established providers and a reluctance to relinquish control, will nevertheless see an upward trend over the next decade. There is a need to focus on core activities, i.e. generating alpha and minimising non-core activities, and reducing unnecessary capital expenditure growth by managers. For smaller firms, outsourcing operations for services such as transfer agency, trade processing, KYC, and risk and tax reporting, is prevalent in established markets, but less so in emerging markets. While there is already a

mature market in Asia aimed at outsourcing services such as fund accounting, other functions are not yet fully readily available across all jurisdictions, particularly around the middle-office, risk management and analytical functions. Tax compliance/reporting and planning functions is fairly developed across the region, with many large, medium and small firms outsourcing – however this is expected to grow alongside other functions being outsourced. The growing use of blockchain in the industry will further alter accounting, trading, and asset servicing services and processes, and likely create new players able to bring new technologies to the marketplace and leapfrog existing traditional providers. As the roles, responsibilities and risks of the middle office mature, we expect that the effective outsourcing of these operations will be a vital strategic choice.

The search for outcomes

APAC investors' demands are shifting as they look for specific outcomes and shape their investment habits accordingly. Active strategies are losing ground to passive strategies as their lower cost is attractive to many investors. While we expect passive demand to continue growing, this by no means conveys a death sentence for active managers. Institutional investors are becoming ever more concerned with the impact of their investments and millennials' demand for green assets are changing products across the region.

The shift from active to passive is in its infancy in the APAC region – largely due to current distribution channels that promote active products, which are still the favoured form of investment. Recent implementations of semi-passive strategies do, however, already point to a gradual change in the status quo. This, together with the introduction of alternatives, ETFs, and smart beta funds are accelerating the growth of passive strategy assets.

Investors are differentiating between alpha and beta and what they are willing to pay for each. As the cost of beta continues its march downward, we expect to see active management structures evolve to keep pace. Passive investments will be the base on which multi-asset solutions are built, with alternative and active investments delivering alpha being the distinguishing factor between funds.

Notably, impact investing, including both ESG and SRI, will grow rapidly with APAC institutional investors expected to take a more pragmatic

approach than their western counterparts, racing to funds that include these criteria. Sustainable Development Goals (SDGs) also have the potential to produce trillions in investment opportunities, with nations such as China already promoting the importance of sustainable growth. As a result of this promotion, China is the leader in green bonds issuance. Hurdles to adopting SDGs still persist and sustainable growth should not be cast aside for rapid urbanisation. Developed APAC nations should continue to scrutinise those countries that do not adhere to the goals and will be aided in this by HNWIs, mass affluent, and millennial investors who will increasingly pressure asset managers to ensure their funds meet sustainability criteria.

Fund advisers should increasingly align their investment management practices with the investment objectives of the brave new world they find themselves in. With greater price sensitivity and awareness of alternative investment strategies, there is increasing pressure to reduce costs and generate alpha which adds to the fund advisers' burden. As such, to create multi-asset solutions, firms are likely to do one of three things:

1. Enhance and build on their internal organisations, making use of their existing talent and capabilities,
2. Acquire further services in talent, track-record, or scale, expanding their capabilities across asset classes and strategies, or
3. Partner with other institutions to take advantage of broadened distribution channels⁹.

⁹ PwC, Alternative asset management 2020: Fast forward to centre stage, 2015

Passives gain in popularity

Passive strategies are establishing themselves in the region, with the Bank of Japan a strong purchaser of ETFs tracking Japanese indices, and other investors allocating larger amounts to passive strategies. Many pension funds in the region are implementing semi-passive investment strategies in order to trim costs and diversify their portfolios. Australia's largest pension funds have been implementing passive strategies for some time and are expected to continue expanding their smart beta reach to domestic small cap stocks and developing markets. The Japanese equity holdings of GPIF are 91% passive and pension funds in Hong Kong, South Korea, and Taiwan are gradually implementing similar strategies.

Smart beta product popularity is set to play a significant role in this area in the coming years, with investor interest in smart beta strategies which track emerging home markets in Asia increasing. Consequently, firms have begun to look to markets in the region, other than Japan, to list their smart beta ETFs.

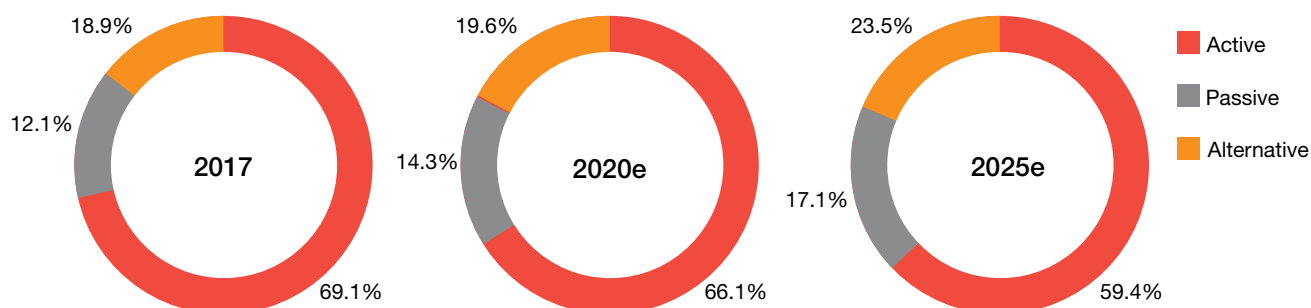
While passives are slowly gaining in popularity, we have identified three reasons that are hampering their uptake in the region:

1. APAC investors tend to be more active and focused on returns, and are prepared to take risks to reach their targeted returns. Therefore, passive products might not provide the incentives they are looking for;
2. The current distribution channels incentivise advisers to promote actively managed funds to retail investors; and
3. While we see large growth in digital distribution and passive products in China, this is fairly unique and the rest of the region has yet to see similar levels of growth.

For these reasons, among others, passives have yet to see the same popularity as they have in more developed markets such as Europe and the US. As a result, passives currently remain mainly an institutional play in Asia, and a transformative change in the fee model in Asia must happen before the growth of passive strategies can be sustained at the broader investor level.

The introduction of robo advisers and more digitalised fund advice will play a large role in changing the current status quo. We believe that these new channels may pave the way for passive growth in the region, opening up new distribution channels, and disintermediating current ones. This “new order” will further be bolstered as pension reforms in countries such as China continue, allowing pensions to invest in passive assets for instance, and sharply driving the share from 12% in 2017 to 17% in 2025 (see Figure 5).

Figure 5: APAC AuM projections for 2020 and 2025



Source: PwC AWM Research Centre

Note: Sums may not add to 100% due to rounding

Alternative assets set to boom

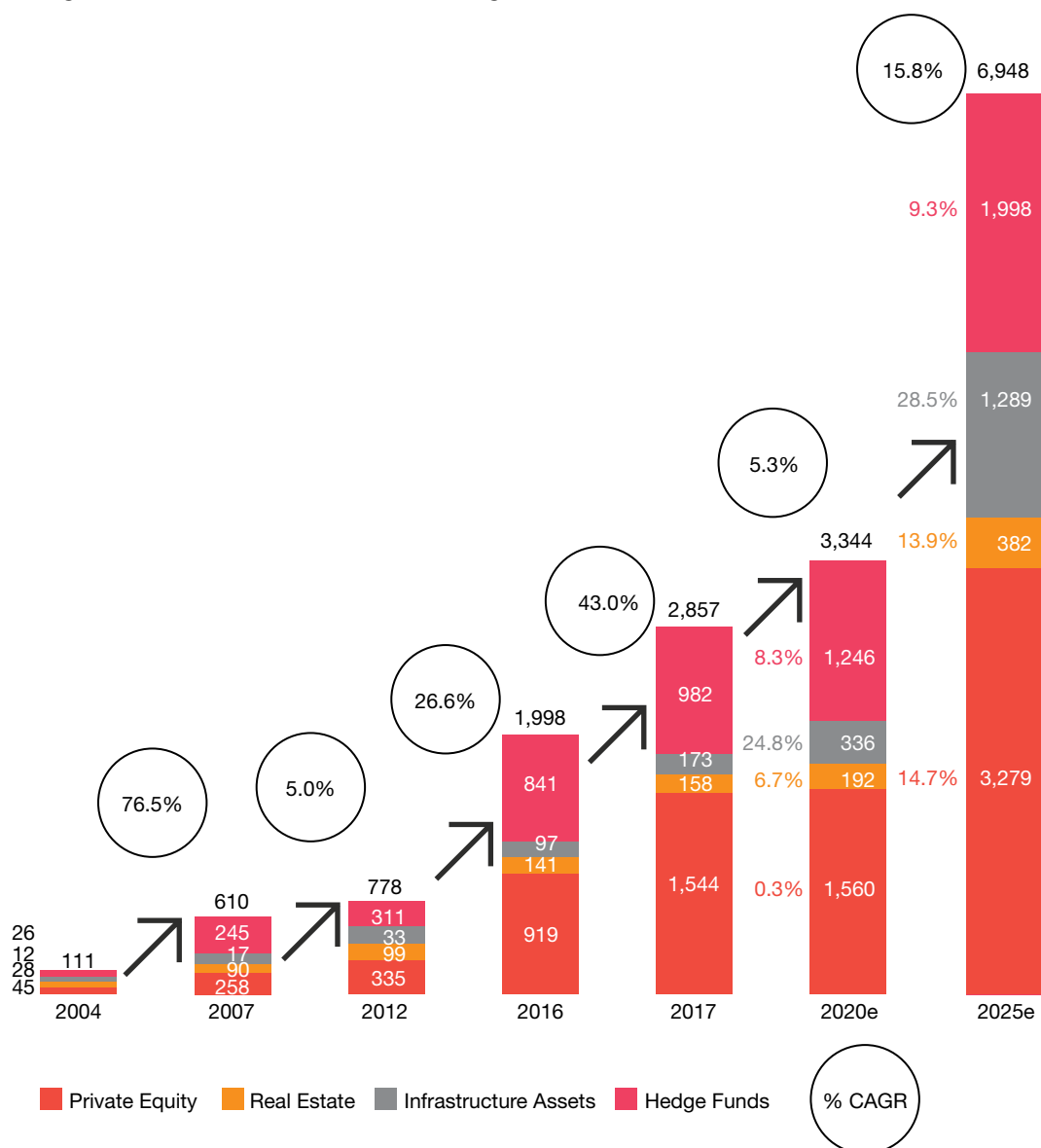
Alternative strategies are set to grow significantly in the coming years, from USD 2.86 trillion in 2017 to USD 3.33 trillion by 2020, and then to USD 6.9 trillion by 2025. This staggering increase is largely due to the expected boom in infrastructure (see page 17 for more information) and private equity assets (see Figure 6) which are set to grow from USD 1.54 billion in 2017 to USD 3.28 trillion by 2025, a CAGR of just under 10%.

Hedge funds in the region are expected to grow at a CAGR of 9.3% from 2020-2025,

more than double the global rate of 3.8%. Only those firms truly providing alpha and aligning their solutions to clients' needs will come out on top in this survival of the fittest contest.

While infrastructure and real estate are forecasted to grow strongly between 2020 and 2025, much of this growth will fall under infrastructure. However, real estate should not be forgotten. As urbanisation in the region increases, many asset managers will look to non-traditional areas of investments such as rented accommodation, low-cost housing, and industrial real estate to provide returns.

Figure 6: APAC Alternative Asset AuM growth in USD billion



Sources: PwC Market Research Centre, based on Preqin data and national sources

ESG and SRI will play a larger role

There is a heightened interest in the region for aligning investments with socially conscious values. Increasing awareness of issues of culture, unethical behaviour, and environmental regulation breaches are driving the uptick in ESG and SRI forms of investing. In certain regional economies, namely Japan, Australia, and New Zealand, ESG and SRI investing is fairly widespread and it is forecast they will play a much larger role across APAC by 2025, with investors across the region increasingly demanding ESG and SRI products from asset managers.

Development banks and international institutions, such as the Principles for Responsible Investment Corporation (PRI), are in large part responsible for this change, as their reach grows throughout the region. In late 2015, the PRI partnered with GPIF whose goals now include raising its ESG rating from 3% to 10% in the coming years, incorporating ESG issues in their investment decision making process, and demanding ESG disclosures. A number of government initiatives across the region are also promoting ESG, including China's 13th Five-Year Plan which outlines

a number of actions to be taken to help green China's economy, as well as a Green Bond Grant Scheme launched by the Hong Kong Government. Authorities in Singapore and Japan have also launched initiatives and we believe that more will be seen across the region as ESG becomes more prominent.

In South East Asia, rapid urbanisation poses a significant opportunity for impact investing and the promotion of green bonds. Singapore recently produced its first international green bond and Malaysia saw its first company use the country's established Sukuk framework to launch the first green Sukuk in the second half of 2017. Indonesia followed, being the first country to sell a sovereign green Sukuk bond. The bonds will be used to finance projects in renewable energy, green tourism, and waste management. While these do not represent particularly large movements for the region, impact investing has not been a historically prevalent trend. Thus, we anticipate, development in the region will increasingly be related to environmental trends, much like it is in China. As such, ever more "green financial systems" will arise promoting infrastructure projects financed by green bonds.



Funding the future

Following global trends, asset managers in the APAC region are taking centre stage and filling financing gaps that have emerged following the global financial crisis, becoming new sources of capital for real asset projects and playing a large role in investing for retirement needs. Growing urbanisation in the region is leading to large infrastructure opportunities and great potential for asset managers to generate alpha financing these projects.

The trend is global and has been firmly established, readers can refer to our earlier publications *Asset Management 2020* and *Asset and Wealth Management Revolution* for additional context. There are huge financing needs globally, especially in the APAC region, and AWMs are increasingly stepping into the role of financing these projects. Within the APAC region, China's Belt and Road Initiative and general growth will be a driving force representing approximately 60% of global infrastructure spending by 2025¹⁰.

Ageing populations in the region, some more so than others, will translate not only to an increased opportunity to bridge retirement savings gaps, but also real asset opportunities as more healthcare facilities and retirement homes are built. Increasing prosperity in the region will drive consumer related infrastructure spending, including transportation and manufacturing sectors. Furthermore, growing urbanisation will boost spending on sectors such as water and power.

Infrastructure skyrockets

As one of the fastest growing economic regions globally, infrastructure will be a key investment. In line with this, we expect infrastructure assets in the APAC region to grow at a staggering annual rate of 24.8% between 2017 and 2020, and then to skyrocket by 28.5% out to 2025. This is largely due to growing financial, telecommunications, and technology sectors that will require major investment injections as the region sees mass urbanisation.

Alternatives as a whole are expected to grow from almost USD 2.9 trillion in 2017 to USD 6.9 trillion in 2025, with infrastructure assets making up just over a fifth of this amount¹¹. In fact, according the Asia Development Bank, developing Asia will need USD 1.7 trillion invested every year until 2030 in order for the region to maintain a strong growth momentum, respond to climate change, and tackle poverty issues¹².

The accelerated growth of these projects and the strong interest in real estate, coupled with the expectation of further initiatives, will place an emphasis on the longevity and security of these investments. Investors into these projects are likely to tackle a wide range of risks and opportunities. The move from low-risk investments to larger scale financing will require an array of new skills in order to successfully evaluate, source, and manage assets.

As institutional investors search for yield in the environment, they will increasingly move towards alternative investment opportunities. The growing need for infrastructure investments will provide asset managers with the opportunity to distinguish themselves and to truly provide alpha.

¹⁰ PwC, Capital project and infrastructure spending: outlook to 2025, 2014

¹¹ PwC AWM Research Centre analysis

¹² ADB, Meeting Asia's infrastructure needs, 2017



China's Belt and Road

The BRI plans to invest in infrastructure projects crossing Asia and connecting it with Europe. The project will create a network of roads, ports, utility grids, railways, and pipelines that will inextricably link Asian countries, with markets in the West.

Aiming to create the largest global economic collaboration platform, the network will include policy harmonisation, cultural cooperation, and trade and financing partnerships. Formed on the back of concerns of a slowing domestic economy, the project is a major driver of infrastructure investment for the whole region, aiding developing economies' growth while having the possibility of generating strong returns for investors.

Estimates put the economic value of the project at between USD 4-8 trillion. With development banks in the region not able to cover the required investment amounts, the opportunity for returns on this project are driving many Chinese private investors to the project.

The project is, however, not without its challenges. The long-term vision and investments that characterise the project are also exposed to geopolitical issues such as changes in governments, policy shifts, and diplomatic stances. Additionally, the transnational dimension of the project requires a high level of trust throughout the region. This trust is not easily gained, but is often easily lost.

As many of the planned projects are in 'frontier' markets, where legal protection for investors might not be as substantial as in more developed economies, investors might shy away from investing until a reliable track-record of successes can be demonstrated.

Regardless of the challenges, the initiative is likely to draw much attention from asset managers. International asset managers, especially European managers with local offices, are well placed to step up their financing of these initiatives, and we expect this trend to grow in the coming years.

Planning for retirement

The world's population is ageing, especially so in some Asian countries. China and Japan's populations are greying fastest, but Singapore, Hong Kong, and Thailand are catching up. With largely unfunded pensions in the region, asset managers will play a growing role in retirement investing. A switch to funded pensions in growth countries in the region could represent a windfall for asset managers.

Pension provision in the region is inconsistent and many governments recognise the need for privatised pensions. However, many local regulations do not encourage private pension savings yet. More developed countries, such as Australia, Hong Kong, Singapore, New Zealand and Japan, to some extent, have moved to funded pension systems, both DB and DC. Auto-enrolment is prominent among these schemes, though some allow workers to opt-out or receive an exemption if certain criteria are met. With regional pension fund AuM expected to grow in the APAC region from USD 4.6 trillion in 2017 to USD 6.8 trillion by 2025¹³, it is likely that more governments in the region will turn to DC plans and individual retirement accounts. This transfer to funded pensions represents a great opportunity for asset managers.



Venturing into the future

Venture capital is one of the fastest growing opportunities in the APAC region. In terms of deals, the region ranks just below the US, with China leading the market and accounting for five of the top 10 largest VC investments at the end of 2017. Unlike more mature markets, such as the US and Europe, most investors tend to be corporate investors, banks, and insurance companies. This is largely driven by incentives introduced for insurance companies.

Growth is evident throughout the region. Southeast Asia experienced a record USD 13 billion in venture capital deals in 2017. In fact, the attractiveness of Southeast Asian countries is increasing in terms of deal volumes and values, especially in Singapore, Malaysia, and Indonesia. Singapore's Government offers incentives to attract leaders and venture capital managers such as protection of intellectual property, allocation of public money for early investments and the reduction of regulatory "red tape".

With the development of Islamic Finance and Sukuk products, and the awareness of international potential investors regarding the related opportunities, this market offers, venture capitalists are expected to become more interested in some economies in the region. Indonesia, for example, provides strong incentives in order to draw investors. The government recently declared that perceived income derived by venture capitalists will not be subject to tax treatment in order to enhance start-ups and SME investments. However, the country still has to go through reforms regarding the ease of doing business, regulations, and talent education and retention to be counted among the leaders of the VC market in Asia.

In order to increase their global market presence and be hosts to highly-valued companies, APAC economies will need to tackle issues regarding capital flows, talent shortages, and intellectual property protection, besides the structure and strength of their stock markets.

¹³ PwC AWM Research Centre analysis



Spotlight on China

While China is becoming a rich country, it is also becoming an old country, with the elderly increasing in numbers as the working age population shrinks. China also has a disparate and relatively uncoordinated pension apparatus which is tied to the household registration (Hukou) system. Above this provincial-level apparatus stands the National Social Security Fund (NSSF) which was founded to plug the expected pension shortfall from the provincial systems. Rounding off the pension system is the occupational third pillar referred to as Enterprise Annuities (EAs). These are corporate sponsored, DC products, and currently provide the best avenue for foreign asset managers to access the China pension space directly, instead of receiving mandates. Outside of the formal pension system, many Chinese, especially mass-retail investors, purchase pension insurance products. Compared to EA AuM, which stood at just over RMB 1.3 trillion at the end of 2017, pension insurance product AuM amounted to nearly RMB 9 trillion at the same point in time. Public sector workers have their own third-pillar called Occupational Annuities (OA's), these were founded in 2014 and prior to that state workers' pensions were directly funded by the state. Since their inception, OA AuM has been growing by RMB 150 billion annually and is expected to reach RMB 1 trillion by 2020.

The impact of China's aging on its pension system could be severe, with the World Economic Forum estimating China's pension shortfall amounting to USD 11 trillion in 2015 and rising to USD 119 trillion by 2050. In the face of this, potentially, catastrophic under-funding, China is taking steps to encourage pension savings and is slowly reforming its pension

system. A pilot-programme has been rolled-out in three centres to provide individuals with taxation incentives on personal pension products and regulators have also approved the launch of several pension target funds. These funds, currently able to be launched by 14 approved fund management companies (FMCs), are fund-of-fund products able to invest in a mix of stock and bond products which rebalance over time as investors age and their risk tolerance changes.

The combined AuM managed by FMCs reached RMB 1.62 trillion in September 2018 and, given the enacted reforms and scope for future reform, this number should grow substantially in coming years.

By 2025, we believe that the governing body of the NSSF will have centralised control of the provincial pension pots. Such a move will likely see provinces in surplus bail-out those in arrears which will be an expensive but necessary move. Without the distraction of, generally, underperforming provincial pension systems to worry about, the centralised pension authority can take greater steps in allocating mandates and investments to ensure returns are suitable.

We also forecast that the EA market will be sufficiently open by 2025 that foreign asset managers with operations in China – likely majority control of FMCs – will be able to apply for and receive EA licenses. This will provide foreign asset managers with experience in occupational, DC and pension products a great opportunity to market and capitalise on their skills. Some amount of offshore investment in pension funds will also be allowed, enabling qualifying foreign asset managers a competitive advantage in offering diversified, overseas investment products.

Regional inter-connectivity

The fragmented nature of the region's AWM industry is being challenged as global trends force the industry to evolve and new investment structures will compete with established offshore vehicles. In addition, fund passports will become ever more popular with investors as they ease regulatory burdens and foster asset growth.

The pressure to evolve and match global levels of financial integration is driving the development of new vehicles for domestic onshore funds. In this context, territories such as Hong Kong, Singapore, and Australia are leading the way. We anticipate that this trend will continue with the increasing adoption of passports, eventually pushing APAC fund centres to compete with established fund centres like Luxembourg and Ireland.

Increasing interest in cross-border distribution is encouraging fund passport adoption. While more work is needed to fully establish these institutions and their advantages, the benefits of established schemes is felt by the handful of countries who have joined them. In line with this, member numbers in schemes such as the ARFP are rising and are expected to continue to do so.

When compared to the US or Europe, the region is playing catch-up in terms of cross-border regulations. Cooperation is taking the form of regional passport schemes coupled with new collective investment vehicles and APAC is looking to outperform other regions through increasing collaboration and integration.

The number of bi-lateral arrangements, whereby two or more countries within or without the region agree on a common framework for mutual recognition of products, is also changing the landscape and strategy for the marketing and selling of products. In particular, Hong Kong has been active in this, signing mutual recognition agreements for funds with China, France, Switzerland, the United Kingdom and most recently Luxembourg. We expect that a number of other more established jurisdictions in Asia will follow suit.

New investment vehicle structures – establishing the APAC region globally

With the introduction of new investment vehicles – Open-ended Fund Company (OFC), Corporate Collective Investment Vehicle (CCIV), and Singapore Variable Capital Company (VCC) – APAC domiciled funds are expected to soar – enhancing the marketability of such funds to foreign investors. As more of these new vehicles are established, we believe that onshore fund centres will grow to a point where they compete with current international cross-border fund distribution centres like Luxembourg and Ireland.

The OFC will offer an alternative legal structure for managers looking to a Hong Kong based platform. The new structure will allow open-ended funds to act similarly to a conventional limited liability company with the overall aim of diversifying the fund domiciliation platform in Hong Kong. However, with the implementation of attractive fund jurisdictions in Australia and Singapore, the competition is getting more intense. In consideration of this, the Hong Kong Government has offered tax exemptions to privately offered OFCs providing it meets the specified conditions.



Comparably, the CCIV will permit Australian fund managers to structure their investment offerings in a similar manner. The intention across the board is to enhance the marketability of domestically managed funds to foreign investors.

While the coupling of CCIVs and fund passports is still in its infancy, it is already beginning to shape regulatory frameworks. The Australian Federal Government released draft legislation regarding the ARFP and CCIV. These changes are expected to continue across the region, with both Singapore and Hong Kong also looking to align their passports and new CCIV structures.

Singapore's VCC structure is set to increase opportunities for cross-border collaborations for the city-state, allowing growth for already established managers and creating a larger investor platform for managers to tap into. Approved fund firms must adhere to a number of requirements and the framework is closely modelled around existing established vehicles such as the Cayman Mutual Fund or the Irish Collective Asset-management Vehicle (ICAV). Considering the recent success of ICAVs, we expect similar achievements from the OFC, VCC, and CCIV; changing the way the industry operates and closely aligning with the growth of fund passports.

Fund passports will proliferate

Based on UCITS, the new cross-border schemes – ASEAN CIS, ARFP, and MRF – are changing the face of regional cooperation in the asset management industry. Regional growth possibilities, increased liquidity, reduced costs for cross-border investing, improved efficiency, and the ability to invest in funds previously unavailable to them are driving investors' desire for cross-border schemes. We believe that the uncertainties surrounding tax treatment, sales channels, cannibalisation of pre-existing funds, and language barriers will be overcome and fund AuM of countries participating in these schemes will grow accordingly (see Figure 2).

Currently, the most prominent and inclusive regional scheme is the ARFP. Participants include Australia, Japan, South Korea, New Zealand, and Thailand. In keeping with the scheme, each nation possesses their own step-by-step legislation on procedures for exporting funds from and importing funds to the home nation. Given its recent introduction, the benefits are difficult to measure. However, we anticipate further multilateral mutual recognition agreements in the coming years, easing regulatory burdens such as the present tax system for included nations. Countries will need to work together and take a more holistic view of their tax treatment of funds and investment products under ARFP, including considering any tax leakage and coordinating efforts to mitigate against this with other signatory countries. All in all, the ARFP should be simple to administer, practical, and transparent. In light of this forecast expansion, we project a CAGR of 7.4% between 2020 and 2025. In addition to the current five members, the scheme will likely see renewed interest from Singapore who will probably seek to join in the coming years. Furthermore, APEC announcing their backing of the scheme and promoting member states to join will probably lead to Indonesia expressing interest in joining in the future, while non-members such as India are also likely to show interest. These developments will further the scheme's importance for the area.



With funds in these schemes expected to grow from USD 6.7 trillion in 2017 to USD 11 trillion by 2025, a CAGR of 6.59%, as challenges are overcome it's clear that these schemes popularity will only increase.

Nevertheless, the APAC fund passport schemes are still in their infancy. Bilateral agreements are more common as of now, reflecting the somewhat fragmented nature of the region. However, as various countries in the region become more aligned in terms of development, we believe that passport schemes will become more popular. As they are further established in the region, the financial industries will become further institutionalised and their rise to prominence will quicken. Currently, regulations, increased inclusion, and global recognition of these schemes are still required to truly build a complete regional fund distribution and marketing platform. As recognition of these schemes grows, we expect other emerging nations and regional blocs to produce direct links with the region. Most notably, we expect a link between APAC and the LatAm market where there are discussions concerning a regional passport scheme. As both markets establish strong cross-border schemes, we expect collaborative links to form between the emerging LatAm and the increasingly established APAC passporting schemes.

Two regional asset management hubs dominate in the region – Hong Kong and Singapore, while Shanghai, Sydney and Tokyo deepen their hold as large domestic market centres

We expect Singapore and Hong Kong to continue to dominate as regional APAC asset management hubs in 2025, and continue to compete as global financial centres. Post global financial crisis, both centres attracted strong net new assets between 2008 and 2014, and both experienced strong growth in UHNWI between 2006 and 2016. These two trends are expected to continue into the future and generate further advancement in the AWM industries contained in each centre.

Sydney, Shanghai, and Tokyo show strong promise of growing to become quasi-regional financial centres in the coming years¹⁴.

Australia has one of the most mature markets with the largest domestic AuM in the region and given the market's ambitions and strong infrastructure, the country can play host to a financial centre in the coming years. Though the need to internationalise its offerings is critical to this eventuality coming to pass. The rising importance of China on the global stage, as well as the opening up of the country to international investors will likely see Shanghai advance towards becoming a more globalised fund centre, and even possibly challenge Singapore and Hong Kong as a regional hub. Tokyo has already started initiatives to create a metropolitan asset management centre and combined with local government support, large domestic pockets of institutional monies, and a concerted push to be an ESG investment centre, Tokyo has the ability to move quickly up the rankings to place itself as a major player in particular as a centre of excellence for ESG in Asia.

In addition, we see a role for Kuala Lumpur as a regional centre focused on Islamic finance. The government and industry are currently taking steps to attract a range of sharia-compliant funds and other investment products to the region and demand for Islamic investment products is expected to increase in coming years. We believe that Kuala Lumpur will benefit in the future from policies and practices it is implementing now in this field.

Finally, we predict that by 2025 India will be seen as a more stable and attractive location with more joint-ventures between domestic and foreign entities providing investment products to an increasingly active and confident class of investors. A growth in the rankings will likely be due to the results of cross border regulation. Hong Kong, Singapore, and Shanghai sit among many emerging financial markets and the prospects for profitability and growing population make them increasingly popular. Given the increasing function and scope of the ARFP, the alignment of regulation across the region will help these regional financial hubs grow in popularity with international managers.

¹⁴ The Global Financial Centres Index 22, September 2017

Greater Bay Area (GBA)

The GBA aims to combine the economic power of Hong Kong, Macau, Shenzhen, Guangzhou, and seven other metropolitan areas across Guangdong province into a regional powerhouse which would rival that of Greater Tokyo, Greater New York, and the San Francisco Bay area. The successful development of the GBA would combine the capital markets of Hong Kong and Shenzhen, with the manufacturing and high-tech capability of several Guangdong cities.

The GBA has ample population but a low per-capita GDP compared to its international peers. As part of China's desire to continue its urbanisation drive, increasing numbers

of regional city-clusters could become the norm. Given that the GBA comprises a mixture of Chinese cities and the Special Administrative Regions of Macau and Hong Kong, there exists potential for greater issues and greater ambition than purely domestically focused city-clusters. As an example, given how Shenzhen is driving technological innovation and is the heart of China's start-up scene, while Hong Kong is a global financial centre, the future may see an area with total freedom of currency convertibility and fund raising. This would enable Shenzhen-based enterprises to engage with financiers in Hong Kong for fundraising and other capital raising purposes.



Source: Fung Business Intelligence

4

Seeing the future: What if...

When looking to the future of the APAC region, PwC believes that there will be a number of possible transformations which will take place, or be fully operationalised by 2025 – these will significantly affect the ways in which investors and asset managers do business in Asia.

The real point here is not whether such transformational scenarios will arise or when they will. The point is they will challenge current thinking of asset managers in the event they materialise within this coming decade.



What if...

A single funds platform, under the ARFP, with multiple regional-to-country bilateral agreements forms?

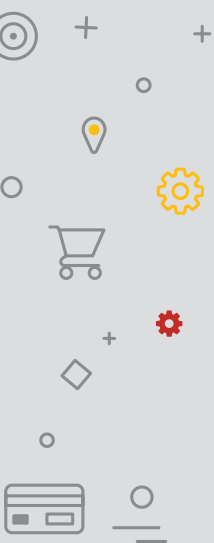
While the ARFP is currently still in its formative years, participants include some of the largest AWM countries in the region, including Australia and Japan. Following the establishment of a fair tax agreement with certainty and administrative efficiency, we expect Singapore to join and India to express interest in doing so as well. As the agreement becomes more overarching it is likely that a common regulatory structure for collective investment schemes develops, improving market access, creating regulatory harmonisation, and greater regional financial institutionalisation.

Nevertheless, a noticeable absentee from the ARFP is China as it maintains various

cross-border programmes to allow individual and institutional investors to gain access to its investment markets.

The ASEAN CIS programme, whilst still in existence, has been superseded by ARFP and exists in name only as an ASEAN initiative.

Impact: Fund managers are able to achieve better economies of scale, selling single products across the region, which results in lower costs for customers. Additionally, with increased investment and involvement in the AWM industry by large tech companies becoming more prominent, the use of messenger apps to sell funds is more pronounced. As a result, the ARFP became the most widely used single funds platform across the APAC region.



A direct link is established between the ARFP constituents and the LatAm market?

As the APAC region economies shift towards the ARFP, a similar process of regulatory harmonisation is underway in LatAm. This harmonisation will pave the way for the formation of a LatAm fund passport scheme, the aim of which is, among others, to attract foreign investors' capital. Developing an ARFP – LatAm fund passporting arrangement is likely to ensure that much of this interest will come from asset and wealth managers based in the APAC region as the regions already maintain strong trade links with each other. The success of this link could lead to greater intra-APAC investment links between

established and emerging centres, providing an additional track above the emerging passporting schemes. The fact that Chile, Peru, and Mexico are part of the Asia Pacific Economic Cooperation (APEC) bloc which is leading the development of the ARFP provides a significant impetus for Asia and LatAm to be more directly linked in the coming future.

Impact: The impact of two independent fund passporting schemes entering into a direct investment link led to greater investment flows between the regions. It enabled asset and wealth managers in their respective regions to launch new products and target investors in their home markets or attract new investors in other markets.

Technological adoption in Asia increases to the extent that online distribution, through robo-platforms, retail shopping, and other social media platforms, completely overtakes the traditional distribution market?

By 2025, we believe that online distribution will represent more than 50% of fund flows across APAC. China will lead the way in this regard with over 80% of flows being sold through online channels and will serve as a case-study to other jurisdictions as they seek to promote disintermediation and increase fund distribution through less traditional channels. By the end of 2016, the market share of traditional channels had fallen to under 10% and direct sales had surged to over 84%¹⁵. Digital distribution accounts for the majority of this sea change, with a host of industry players including asset managers, banks, IFAs, and others investing large amounts in digital distribution technology.

This is particularly true when we look to countries such as China, India, and South Korea, where online purchases and mobile phone use is rapidly increasing and already starting to

surpass traditional channels. Industry bodies in Hong Kong are also pushing for wider access for investors to purchase products on digital and mobile distribution channels and acknowledge that this will not occur in a 'big bang' style event. We believe that by 2025, significant inroads will have been made in the dominance of traditional banks in the realm of fund distribution.

Impact: Emerging economies leapfrogged developed economies in the online distribution space as their populations were more attuned to utilising mobile and other online platforms in their daily lives. Developed economies turned to these jurisdictions and applied lessons in their own development and shift towards online distribution. In mature economies, the entrenched industry players like banks shifted from a stance of resistance to a stance of acceptance as they focussed their attentions on building their own digital distribution infrastructure, through organic and/or inorganic means.

15 China Securities Investment Fund Industry Annual Report, 2016

Seeing the future: What if...

A regional settlement platform for all equity, bond, and derivative trades across key markets in the region becomes a reality?

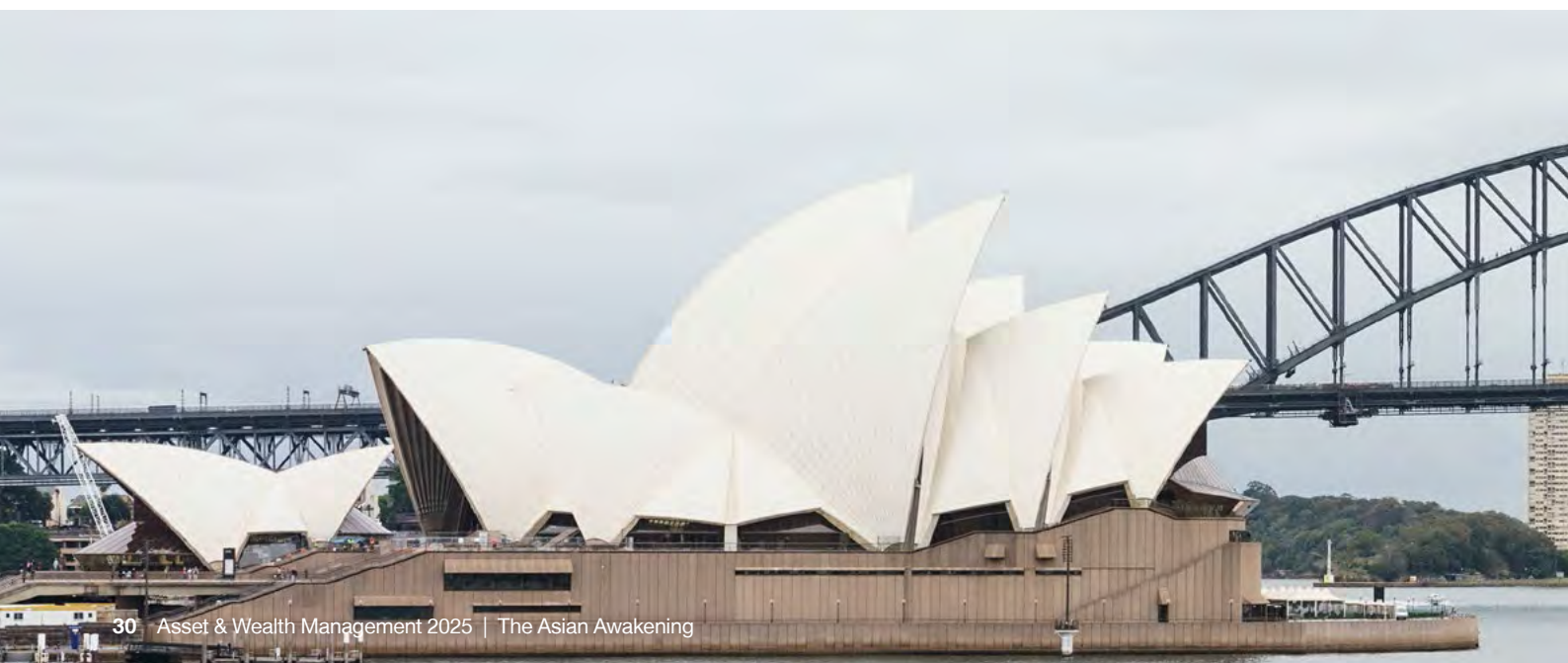
With players across APAC already looking to establish an overarching settlement platform across the region, closer integration among economies and implementation of fund passporting and other investment integration schemes increases the attractiveness of a common settlement platform and accelerates its adoption. One such platform is already operating in 12 countries in the region, including Japan and Australia, with the ultimate aim of operating across the whole region producing one overarching settlement platform. In the years preceding 2025, this will likely bear fruit and, as blockchain becomes more prominent, we can expect it to facilitate this change.

Impact: The rise of regional settlement platforms and intra-day processing increased fund flows and led to more asset management hubs dominating the region. Blockchain revolutionised the settlement processes in the coming years and, with its ability to provide real-time intra-day settlement, it became the primary engine powering the settlement process. Large banks began moving great numbers of over the counter transactions to real-time settlement on private distributed ledgers. The technology further allowed for the merging of independent records into one system, reducing the risks associated with multi-tiered systems.

Digital identity on the Cloud becomes a norm?

As people migrate their identities to virtual data-vaults, and the security surrounding said vaults improves, increasing amounts of information ranging from data collected via health apps and wearable devices, to financial information, e-wallets, and even travel documents is uploaded to cloud-based servers. These servers are maintained by private enterprises and government bodies alike – think of India's Aadhaar programme coupled with the data-generating and storage power of Facebook and Apple – and enable crucial details of a person's identity to be retrieved and verified in a matter of seconds. This would have a demonstrable impact in the onboarding and KYC process, whereby facial, print, and voice recognition technology is used to retrieve and verify a client's identity.

Impact: All financial records and investment portfolios are connected digitally, and current and projected cash flows are tracked real-time such that robotic platforms will advise customers when excess cash is available for investing, or when positions need to be liquidated to provide cash for payments. In China and India, where mobile technology and on-line accounts were already prevalent, and where individuals appear happy to maintain digital identities, this occurred quickly. Other emerging markets such as Indonesia, Vietnam, and Myanmar, which sought to leapfrog developed markets, saw this eventuate much faster.



Digital banks take the market by storm and challenge the traditional distribution channel?

Since bursting onto the scene, digital banks now control more than 50% of the Asian banking market. Services range from funding to financial planning and investment transactions. The owners of digital banks include asset managers, robo advisers, telecommunications companies, and technology companies – the physical footprint of digital banks is minimal and the smartphone is the new banking branch, wallet, and medium of receiving information. Internet and smartphone use across the APAC region helped facilitate this shift and the penetration of these technologies has continued to increase. APAC now leads the way globally in terms of digital distribution and dissemination of information as outlined in the point above.

Impact: Distribution has well and truly been redrawn and Direct-2-Customer means asset managers now control the end-client relationship. Distribution costs are at near-zero levels and asset managers found new ways to engage with investors. The present asset manager is more focused on customer delivery platforms and selling an investment experience, coupled with outcome-based solutions, rather than focused on products. A new asset manager takes shape where a platform comprising human and artificial intelligence now operates.

The death of legacy media and shift towards digital and social media channels accelerates dissemination of information among investors?

Radio, TV, cable, and print media were shunted to the graveyard and met a crashing death as Asian consumers shifted to on-line, on-demand streaming and communication mediums. This was usually disseminated through the dominant social media platform in the country with WhatsApp leading in Singapore and Hong Kong, WeChat dominating in China and having a significant market share in Hong Kong, and Line dominating Japan, South Korea, and Thailand. Improvements in algorithms and location-specific advertising services means asset and wealth managers can have targeted advertisements displayed on mobile devices in response to potential investors internet searches or their physical location. With social media networks becoming the dominant communications channel, advertising and marketing content shifted to enhance compatibility and sharing potential across the various platforms.

Impact: Marketing programs, the creation of digital brands and web value took on a new meaning and asset managers reacted to the new infrastructure, where website hits and advertising spend is now based on consumer tweets and posts, traffic volume, and frequency of on-line product campaigns.



Seeing the future: What if...

All financial and regulatory information is digital?

Everything is digitalised, from information capture to processing and reporting. Regulators and investors alike can pull information on product, volume, pricing, historical trend analysis, and market projections directly from a single source maintained by designated utilities. Data from asset managers, custodians, fund administrators, brokers/counterparties, transfer agents, and other information exchanges are connected. Asset managers no longer need to submit regulatory information and returns to regulators as this can be accessed on an on-line, real-time basis via RegChat, a global regulatory communication and data analytics tool. Investor reporting is no longer necessary as investors can get access to their consolidated portfolios and other investment information on-demand, regardless of asset manager or custodian. Tax reporting also becomes a thing of the past as all investment

positions, purchases and sales transactions are managed in a central depository pool accessible to brokers, custodians, and tax authorities. Withholding tax on dividends/ interest and capital gains tax are automatically deducted/refunded on transaction dates, and on an ongoing basis such that net asset values of investment positions are always net of tax.

Impact: Data is the new oil, and the value of the information contained within data has become a significant intangible asset. Systems are now inter-connected in every way, and managers need to deal with systems access and cybersecurity considerations in ways never imagined. Pricing fund products will have evolved as uncertainty is no longer priced in. Managing businesses and decision-making is subject to real-time scrutiny and evaluation by regulators and investors alike, where transparency now drives the value of the organisation.



5

Conclusion

Undoubtedly, we are witnessing a revolution in Asia's AWM industry, notably with the impact of technological changes reshaping the landscape of the industry. The important thing here is not whether each and every of the possible scenarios highlighted will occur or when, but what if? The call to action for asset managers today is to think through the implications of all the possible scenarios, whether they be market-driven, digital, regulatory or geographical. Change has already begun, and what is certain today is that the future of Asia will be very different in 2025.

Margin pressures today will drive decisions for investment in the future, while shifts in the buyer's market and consumer preferences will change how asset managers create product and distribute across different markets and channels. Technology has, and will continue to change how the world works, and being prepared for eventual possibilities will ensure that asset managers don't become obsolete in the light of up and coming disruptors in the marketplace. The fight for talent will be extremely competitive, and asset managers must invest in future talent now – one which is increasingly mobile, digital savvy and diverse with skill sets made for the future.

Immediate considerations for asset managers include:

Strategy and products

- Which markets should you be onshore, versus offshore in order to access the capital and investments markets of Asia in the future?
- What products will be key to develop outcome-based solutions for the future, including the risk of alternatives such as infrastructure and private equity?
- What structures (e.g. VCC, OFC, CCIV etc.) would be considered best-in-class for future-proofing investments?

- Is direct-to-customer the business model of the future, and if so, what do you need to do to prepare?
- What is the impact on fee structures from the changing distribution and regulatory developments, and how will this impact on your profitability going forward?
- Can alternative data provide new insights to investment decisions, and how can this be mined to create new avenues to generate enhanced alpha?

Operations

- How lean do your operations have to be to allow your business to grow profitably across channels and geographies?
- Will more outsourcing mean better capabilities and access to technology outside of the organisation? Will it carry more risk, and how can this be better managed?
- How can robotics, artificial intelligence and data analytics bring about more efficiencies in your business model and operations?
- What investment will be needed to keep pace with technological change where all information, regulatory or otherwise, becomes cloud-based and real-time?

People

- What organisation model will you need to have to cater for the new workforce of the future?
- How will you find, and attract the talent of the future to join you in building capabilities in new exploratory areas such as infrastructure and venture capital?
- Which type of compensation scheme will work in the future, where the workforce is more mobile, diverse and driven by personal outcomes and preferences?

The answer lies in the future, and the future is now.

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Appendix

Forecasting methodology

I. Overall methodology

In terms of our projections, we use econometric modelling to obtain our baseline estimates. The AuM is used as the target variable (based on data from 2004 to 2016) and various macroeconomic indications from the International Monetary Fund (IMF) are used as explanatory variables. We use proprietary statistical software to search among different possible models. We have tested multiple models in levels, in differences, in logs, with lags and without lags and have shortlisted those statistically significant models for each country. These models are further examined per country and the most economically plausible model is selected.

Both the AuM as well as the explanatory factors from IMF entering our models are denominated in USD. When we conduct our analysis for the AWM industry, we generally include an overlay related to exchange rate fluctuations in particular markets.

We have also taken into account qualitative information and consulted subject matter experts to see possible factors that could affect the performance of our models.

II. Data, sources, and definitions

The sources we have used are widely accepted sources among the industry. These include Lipper, ICI, Preqin, SWF Institute, Credit Suisse Wealth Report, City UK, Towers Watson, World Bank, FSB, and OECD.

1. Mutual funds

We used the ICI definition of mutual funds.

2. Mandates

Mandates are separately managed and discretionary accounts.

3. Alternatives

Alternatives are defined as Private Equity, Real Estate, Infrastructure, Commodities, and Hedge Funds.

4. Pension funds

Pension fund assets are defined as assets bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits.

5. Insurance companies

We use total financial assets of life and non-life insurance companies, and include investment portfolios.

6. HNWI

High net worth individuals are defined as having at least USD 1 million in financial assets.

7. Mass affluent wealth

Mass affluent wealth is defined as the wealth of the population holding between USD 100,000 and USD 1 million. For mass affluent wealth, we also looked at local regulators to obtain the latest data for 2016.

8. SWFs

We use the SWF Institute's definition of Sovereign Wealth Funds (SWFs), including both commodity and non-commodity SWFs.

Editorial



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