2018 IAM Report: Asia-Pacific Ready for Take-Off?

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Foreword

It gives me great pleasure to present Asian Private Banker’s inaugural research report on the Asia-Pacific’s burgeoning independent asset management industry. A culmination of over six months of research, data collection and deep analysis, this report examines the current state and the future trends that will shape the fortunes of this entrepreneurial business segment.

I would like to take this opportunity to thank Julius Baer, our exclusive sponsor for this report, for its support, insights, and help in the research design. Asian Private Banker would also like to thank the Association of Independent Asset Managers in Singapore and the Association of Independent Asset Managers in Hong Kong for their support in the data collection process.

With best wishes,

Stratos Pourzitakis, PhD
Head of Research, Asian Private Banker
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Executive Summary

This research project, ‘2018 IAM Report’ explores the independent asset management industry in the Asia-Pacific region, focusing on Hong Kong, Singapore, Mainland China, Australia, the Philippines, and Thailand. To this end, Asian Private Banker distributed 66 surveys across Hong Kong and Singapore and conducted 27 semi-structured interviews. After conceptualising the notion of independent asset management, we identify the differences between independent asset managers, external asset managers and multi-family offices.

Based on a combination of qualitative and quantitative research, the prospects for the independent asset management market are particularly promising, especially in Hong Kong, Singapore, and Thailand. In the former two markets, 94% of contributing firms achieved an average revenue increase of 42% in their latest financial year, while 55% reported an increase in their relationship manager headcount. On the other hand, this positive momentum brings additional pressure to the profitability of firms which are in the process of scaling up, as 23.6% of our contributors have a current cost-to-income ratio that exceeds 80%.

Furthermore, our research unveils a series of key features of the independent asset management industry in Hong Kong and Singapore, including its market share which we estimate at 5.5% of the wealth market. Moreover, the report highlights key current issues such as the high penetration rate of the discretionary portfolio management, which reaches 70.8% in Hong Kong and Singapore, and the future of rebates in the revenue mix of independent asset managers.

Notwithstanding challenges, including recent regulatory initiatives, the model of independent asset management has drawn attention from end-clients and financial institutions across the Asia-Pacific region. In Thailand, independent asset managers and local banks have become increasingly interested in partnering with international banks, while the prospects for independent asset management markets in Mainland China and Australia are also promising. Finally, the respective market in the Philippines remains limited, yet the economic prospects of the country leave room for optimism.

In Hong Kong and Singapore, the positive outlook of the independent asset management industry motivates relationship managers to leave private banks, as they expect to have more time for their clients and better remuneration, that is on average 44.7% higher than from their previous employer.
1. Introduction and Scope of the Research

In today’s wealth management marketplace, the Asia-Pacific region holds a prominent position as, following a period of long and sustainable growth, it became a hotspot for private banks and asset managers. In parallel, following the 2008 financial crisis, there is a growing interest in independent asset managers (IAMs), especially now that high net worth individuals (HNWIs) and ultra high net worth individuals (UHNWIs) seek to preserve their wealth and transfer it to their heirs. Once a relatively unknown term in the region, IAMs have increasingly become more mainstream and it is expected that they will play an even more important role in Asia-Pacific’s private banking and wealth management industry in future years. On the other hand, the independent asset management industry remains an enigma. What is an IAM, what are the typical paths that lead a HNWI or UHNWI to join an IAM and what are the reasons that motivate a relationship manager (RM) to move from a private bank to an independent asset management firm?

This research paper offers an in-depth analysis of the independent asset management industry in the Asia-Pacific region. Based on primary and secondary sources, it conceptualises the notion of independent asset management, and it examines the role of IAMs in Hong Kong, Singapore, Australia, Mainland China, the Philippines, and Thailand. Furthermore, it studies the business model of IAMs and it analyses emerging challenges and opportunities.

Towards this end, the research will answer the following questions:
1. What are the trends and dynamics in the independent asset management market in the Asia-Pacific region?
2. What is the interaction between private banks and IAMs?
3. How do client needs determine the independent asset management markets?
4. What are the characteristics of independent asset management market in the Asia-Pacific region?

Under this framework, the research paper brings added value to Julius Baer by offering a conceptual framework of the notion of IAMs, providing a comprehensive analysis of the IAM market, and examining a wide array of issues that determine the current, as well as the future trends of this specific industry across Asia-Pacific. Therefore, it will offer a deeper understanding of the independent asset management landscape in Asia, particularly in Hong Kong and Singapore, while taking a pan-Asian approach by comparing different IAM markets in the Asia-Pacific region. Moreover, it will address critical issues for the IAM market including investment product preferences, the revenue mix of IAMs including rebates, as well as recruitment and compliance.
2. Research Methodology

This paper is the result of research commissioned by Julius Baer and conducted by Asian Private Banker between October 2017 and April 2018. In particular, it examined the independent asset management industry in Hong Kong, Singapore, Australia, Mainland China, the Philippines, and Thailand. Given their status as global financial hubs and the widespread adoption of the IAM model, we identified Hong Kong and Singapore as markets of primary importance vis-a-vis our research, and the remaining countries as secondary markets. The subject of our research were IAMs, external asset managers (EAMs), as well as multi-family offices (MFOs) and other entities that adopt a different identification, yet whose operation is based on the basic components of the independent asset management business model. The data analysis was conducted within the context of a quantitative and qualitative research framework that included inductive analysis, descriptive statistics and cross tabulation.

The research project commenced on 20 October 2017. It involved four stages, starting with the necessary preliminary research and literature review, which was followed by research design, data collection and analysis. The final stage included the drafting, editing, digitalisation and submission of the research paper, which marks the completion of the research project.

Table 1 offers a breakdown of the research timeline:

Table 1: Research timeline

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The precise dates for each stage of the research project are as follows:

- Preliminary research/literature review: 20 October 2017 - 1 November 2017
- Research design: 1 November 2017 - 14 December 2017
- Data collection: 15 December 2017 - 15 February 2018
- Data analysis: 1 February 2018 - 28 February 2018
- Drafting, editing: 1 March 2018 - 20 March 2018
- Digitalisation: 20 March 2018 - 6 April 2018
The following chart provides a representation of the research project:

**Chart 1: Flowchart of the research**

From a methodological perspective, we developed a multifaceted research framework that included a combination of quantitative and qualitative research using primary and secondary sources. Concerning our primary sources, the research team of *Asian Private Banker* prepared a five-tier questionnaire that addressed IAMs and firms that operate as IAMs; in particular, we also included companies that label themselves with a different title, yet they offer wealth management services, they are independent from banks regarding their advice and investment choices, and they do not provide custodian services to their clients.

The survey includes approximately 57 questions across multiple levels and they are organised in the following sections:

1. Background questions
2. Questions related to the business model of the contributing entity
3. Questions on the relationship between IAMs and custodian banks
4. Recruitment-related questions
5. Regulation-related questions
Our sample population consists of 66 representatives of the independent asset management industry in Hong Kong and Singapore. Given the status of Singapore as a more developed market for IAMs, we collected 38 questionnaires from Singapore-based firms and 28 surveys from Hong Kong-based firms. Our research collection methodology included multiple options and in particular:

1. Face-to-face interviews
2. Submission of hard copies of questionnaires
3. Electronic submission of questionnaires
4. Phone interviews
5. Online surveys

Moreover, for the purpose of this project, Asian Private Banker established a six-member research team across multiple departments, which consisted of four researchers, one member of the editorial department who specialises in independent asset management and family offices, and a data scientist from the digital department.

Apart from surveys, our primary data methodology included 27 semi-structured interviews with representatives of private banks, IAMs and MFOs, legal experts, as well as fintech experts. Interviews were a three-stage process, as they took place during the research design, the data collection, and in the aftermath of data analysis. The first round of interviews optimised the efficiency of the research framework and the analytical capacity of the research. The main round of interviews was conducted from December 2017 until early February 2018 and aimed at data collection. Last, in the second half of February 2018, we conducted the third round of interviews in order to validate our research findings, triangulate data and fill identified research gaps. Hence, after data collection and analysis, Asian Private Banker reached out to selected key actors and held new, as well as follow-up interviews, in order to supplement the survey results.

Furthermore, the research team leveraged a series of Asian Private Banker events, along with the company’s existing network and members of the management team, including High Conviction: Investment Ideas & Themes 2017, and the 2018 China International Wealth Management Leaders — Private Dialogue. To this end, other employees as well as the executive leadership of Asian Private Banker were engaged on an ad hoc basis.

Concerning secondary markets, the research team used mainly secondary sources such as existing research, working papers, official websites, and official documents. Moreover we conducted five semi-structured interviews with experts on the Australian independent asset management market.
3. Background of the Research

Asia-Pacific’s rapid economic expansion has witnessed the region evolve as the primary driver of private wealth creation globally in the past decade, and the outlook for wealth creation in the region remains closely correlated to the outlook for Mainland China. According to a study by Boston Consulting Group, the Asia-Pacific region had undergone the fastest wealth increase in 2016, and with stronger than expected growth (5.6% in 2017), the region’s economy is expected to surpass North America as the world’s wealthiest region by 2019.¹ ²

In terms of HNWI population, the region retains its position as the world leader, with 5.5 million individuals whose total investable assets amounted to US$18.8 trillion in 2016. Moreover, in 2014, Julius Baer projected that Hong Kong and Singapore will be home to 130,000 HNWIs each by 2015. This estimate is in line with the projection of the “Asia-Pacific Wealth Report 2017”, according to which, Hong Kong and Singapore lead the region (ex. Mainland China) in terms of HNWI population and total wealth, with an estimated 148,200 HNWIs in Hong Kong and 109,800 HNWIs in Singapore, and HNWI wealth totalling US$769 billion and US$562 billion, respectively.³ ⁴

The emergence of a growing HNWI population in the Asia-Pacific region created an ideal environment for IAMs to thrive. The independent asset management model emerged around 1990 in Switzerland when individual private bankers or small teams of bankers left their banks to launch their own firms, using banks as custodians to house client assets. Opinions about the number of IAMs and their market sizes vary and in particular, Robins (2015) calculated that there are 12,800 firms in the United States and 3,600 in Switzerland, while Credit Suisse estimated that there are 2,500 Switzerland-based IAMs.⁵ ⁶

Relative to the Western IAMs, the independent asset management industry in Asia is still in the early stages of its development. The broad consensus seems to be that IAMs are managing around 3% to 6% of total client assets across Asia, but there is a promising outlook for the industry, as many industry experts project this figure to climb to 10% within the next five years. This gradual shift in clients’ preferences for IAMs and MFOs will become more visible as they become more familiar with the model.⁷

Independent asset management firms are mainly composed of ex-private bankers, who offer independent wealth management advice and investment solutions to HNW clients. Though IAMs and MFOs tend to be small in size, with a majority of firms having 10 to 15 members of staff, they control a sizable amount of the total assets under management in the wealth management services industry. According to

existing literature, the current penetration rate for IAMs in Hong Kong and Singapore — estimated at 3% to 6% — is much lower compared to the market share enjoyed by their peers in Europe. By comparison, in 2014, IAMs accounted for 15% (approx. US $430 billion) of the overall wealth management market in Switzerland, and 16% (approx. US$590 billion) of the UK wealth management market.⁸ ⁹

On the other hand, the growth potential is much higher in the Asia-Pacific region compared to mature markets. Hong Kong and Singapore together have developed into one of the fastest-growing offshore centers globally, with offshore assets expected to increase at a compound annual growth rate of 8% and 7% through 2021, respectively.¹⁰ Hong Kong’s Association of Independent Asset Managers expects IAMs to account for 30% of clients’ assets under management in the city within the next five to ten years.¹¹

What is more, it is projected that the next generation of IAM clients in Singapore and Hong Kong will predominantly come from within the region, as strong economic growth in Mainland China, will benefit independent asset managers based in Hong Kong, while growing wealth in South East Asian economies (i.e. Indonesia, Thailand) will profit Singapore-based IAMs.¹² The macroeconomic trends in Mainland China (9.1% HNWI population growth, 9.8% HNWI wealth growth in 2016) and Thailand (12.7% HNWI population growth, 13.3% HNWI wealth growth in 2016) point towards this direction.¹³

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4. The Concept of Independent Asset Management in Hong Kong and in Singapore

As the first step in our analysis, we will examine the notion of independent asset management, identify the key components of its business model, especially those which differentiate IAMs from other business entities, and to make the distinction between IAMs and MFOs. What is more, the report will provide the historical background of the evolution of independent asset management and it will study the basic economic and regulatory requirements for IAMs in Hong Kong and Singapore.

An IAM is a finance professional who offers wealth management services outside of a bank, without being dependent on banks. Although IAMs mainly focus on investment strategy and asset allocation, their services cover a broad spectrum of economic activities including tax consultation, legacy and estate planning, as well as cash management. According to the Association of IAMs (AIAM) in Singapore, “Independent Asset Managers (IAMs) are senior finance professionals who operate independently. Concentrating on private investors and high net worth individuals, IAMs play a significant role in the strategic function of wealth management. Holding key client relationships which are free from any conflicts of interest, IAMs are relationship-focused, advisory-driven and solutions-based practitioners.”

Before we proceed with analysing the notion of independent asset management and identifying its key characteristics, it is important to note that the conceptual boundaries of independent asset management are often blurred, with a large number of IAMs across Asia identifying themselves as MFOs, EAMs, etc. The difference lies mostly on their marketing strategies, while in some cases some minor differences exist. For example, the concept of an IAM is often used synonymously with the term EAM, although not all EAMs operate absolutely independently, at least in the stricter sense of the word. This difference potentially results in different revenue models with IAMs adopting a transactional revenue model less often.

It becomes apparent that a distinct characteristic of IAMs is their independence from other financial institutions, mainly banks, and therefore the freedom to suggest or choose for their clients any financial solution offered in the market. The second characteristic of IAMs is that they do not have the authority to maintain the assets of their clients, and therefore, banks provide custody to their accounts. In addition, custodian banks offer IAMs a wide range of services including reporting, technology solutions, execution services, and access to investment specialists.

Moreover, it is important to note that there are significant differences in the spectrum of services offered by IAMs to their clients. Based on their business model we can identify IAMs who adopt a purely transactional model offering exclusively banking services, while others adopt a more comprehensive approach providing services related to wealth planning, life insurance, as well as tax and accounting services. Finally, a limited number of IAMs, which often label themselves as MFOs, offer more exclusive services, such as immigration and residence management.

Furthermore, we should pay special attention to MFOs, which are distinct from SFOs, as they form an integral part of our research. According to Rosplock’s *The Complete Family Office Handbook* (2014), “the purpose of the family office is to manage and oversee the wealth management affairs of highly affluent individuals and their families regarding such issues as tax, wealth transfer, investment management, governance, estate planning.”¹⁵

Compared to IAMs, the business model of an MFO is almost identical, as both an IAM and an MFO advise or manage the wealth of their clients, they set up a banking relationship with a custodian bank, and the latter provides custodian services and the necessary infrastructure to the IAM or the MFO. Although their exact origin is not well documented, existing research suggests that the first family offices emerged in Europe after large, land-owning families liquidated their assets, while other researchers identify their historical roots from the 6th century and the Medieval major-domo (chief steward).

The modern concept and understanding of family offices and the first MFOs emerged in the 19th century with Rockefeller & Co. which started in 1882 as a single-family office (SFO) but converted into an MFO. Other notable examples of MFOs are the Bessemer Trust, and Wells Fargo Family Wealth.¹⁶ According to Martiros and Millay (2006), commercial service providers adopt the concept of MFO in two distinct ways: to emphasise the superior quality of their services, or to describe their target market, as they are often positioning themselves to serve families with assets of more than US$5 million.¹⁷

MFOs operate as alternatives to SFOs and they target wealthy individuals and families who are unable or unwilling to set up an SFO. Family office experts, such as Barbara Hauser and the Family Office Services Switzerland, argue that a family needs to hold US$200-300 million in AUM to establish an SFO.¹⁸ Other researchers set the AUM threshold lower at US$100 million, with some suggesting that there is a significant number of SFOs worldwide with much less AUM because part of the family’s wealth can be illiquid. Due to this illiquidity of certain assets, some existing literature and family office experts argue that in reality the AUM threshold to set up an SFO is approximately US$50 million.¹⁹ The need to meet certain AUM requirements is justified by the high costs of running an SFO. According to the Family Office Services Switzerland, the annual operational costs of an SFO amount to US$1 million,²⁰ while Mike Reed, Managing Director of the MFO team at RBC Wealth Management, London, stressed that “the general rule of thumb is that it typically costs about one percent of the assets being administered.”²¹

The different AUM thresholds that family office experts and researchers have set should come as no surprise because different types of SFOs will lead to different minimum requirements. Similarly to IAMs, we can identify different categories of family offices: 1. administrative/transactional family offices which outsource their advisory and investment management services, 2. hybrid family offices which execute their strategic functions in-house but they outsource the non-strategic operations, 3. comprehensive

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family offices which provide services for families who desire the maximum degree of control, security, and privacy. Comprehensive family offices have in-house employees for almost all their functions, including administrative, tax, legal, risk management, and core investment management.

As one would expect, depending on the structure and the mandate, wealth requirements of family offices vary. In the US, for example, families that seek to set up an administrative family office typically need to have an asset base of at least US$50 million. Next, the wealth of families that utilise a hybrid family office should be more than US$100 million, while comprehensive family offices typically manage assets greater than $1 billion. Moreover, one needs to take into consideration not only the actual size of the AUM but also the potential turnover, as well as the operational costs of a family office that can be acceptable. After all, all family offices are different or, to quote a family office expert, “once you know one family office you know only one family office.”

Therefore, we can conclude that if a family seeks to establish a small transactional/administrative SFO with 3-5 employees, US$50-70 million might be an acceptable amount of AUM, but if the family seeks to establish a hybrid or a comprehensive family office with approximately 15 employees, then the AUM threshold increases significantly to more than US$150 million. Hence, setting up a SFO with less than US$100-150 million is often too costly from an operational perspective, and families with this amount of wealth will prefer to join MFOs, which serve as an alternative to the SFO model.

Concerning client onboarding threshold, there are mixed signals in the market; for example, while experts claim that families should consider joining an MFO when their assets hit US$5 million, it is common practice that MFOs will accept clients with considerably less AUM, especially if they can meet high turnover goals.

But why should a client leave a private bank and transfer his assets to an IAM firm? The attraction towards this model for clients is twofold. First, clients are expecting to enjoy a long-term relationship with relationship managers who can offer independent advice to a smaller number of clients. Independent of any bank, relationship managers at IAMs can offer a more creative and expansive set of investment ideas by sourcing the best wealth management products that can be tailored to suit the clients’ risk profiles.

Second, clients are interested in consolidating their assets without jeopardizing the diversification of their portfolios. To this end, they want to oversee everything, from their investments in various banks, to insurance policies and family succession planning. To this end, IAMs can offer a one-stop shop for clients’ private wealth management needs. By having a single advisor or advising team handle their investments activities, they are able to see all their assets and liabilities in a consolidated balance sheet, which allows clients to receive advice on a holistic basis across all portfolios.

Apart from the growth of global wealth and the increasingly complex needs of HNWIs and UHNWIs, the ongoing rising popularity of the independent asset management model can be attributed to three reasons; the fragile trust of HNWIs/UHNWIs especially after the 2008 global financial crisis, the interest

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of UHNWIs to buy IAM services instead of setting up an SFO, and their preference to delegate and centralise the process of wealth management.

In Singapore, IAMs are regulated by the Monetary Authority of Singapore (MAS), which treats them as fund managers. MAS identifies two different categories of fund managers, as determined by the 2012 Securities and Futures Act (SFA). The SFA stipulates that corporations with fund management as their principal business activity need to either hold a Fund Management Companies Licence (also known as LFMC) or a registration under paragraph 5(1)(i) of the Second Schedule to the Securities and Futures Regulations (also known as RFMC). Both types of licences are issued by MAS and they set different requirements regarding their base capital, their compliance obligations, their business operation, their clientele as well as their assets. The companies with a Fund Management Companies Licence are further divided into Retail Licensed Fund Managers and Accredited Investors Fund Managers.²⁵ The Monetary Authority of Singapore’s stated capital requirement ranges from SG$250,000 to SG$1 million while for RFMC the total value of the assets managed must be below SG$250 million.

The following table summarises the basic differences between RFMC and LFMC:

**Table 2: Types of fund manager licences in Singapore**

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<th>Category</th>
<th>Permissible Activities</th>
<th>Risk-based Capital Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>LFMCs</td>
<td>Carrying on business in fund management with all types of investors.</td>
<td>Financial resources are at least 120% of operational risk requirement.</td>
</tr>
<tr>
<td>Retail LFMCs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/I LFMCs</td>
<td>Carrying on business in fund management with qualified investors only, without restriction on the number of qualified investors.</td>
<td></td>
</tr>
<tr>
<td>RFMCs</td>
<td>Carrying on business in fund management with no more than 30 qualified investors (of which no more than 15 may be funds or limited partnership fund structures) AND the total value of the assets managed does not exceed SG$250 million.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Monetary Authority of Singapore

---

In Hong Kong, IAMs are regulated by the Securities and Futures Commission (SFC) and they must hold at least one of the following licences: Type 1 (securities), Type 4 (advising on securities/futures contracts), or Type 9 (asset management). Depending on the services offered by the IAM, they will hold one or more of the licences mentioned above.

The Type 1 licence refers to brokers, as well as to firms which carry out dealings in securities. The Type 4 licence is typically carried by financial planners and investment research firms, as well as asset management groups and it allows them to offer securities advisory services. Finally, Type 9 licence is held by asset managers, hedge funds, public funds and private equity firms. This is the licence that IAMs need to have to carry out their asset management services regardless of the type of offered portfolio management services (advisory or discretionary).²⁶

Table 3: IAM licensing regime in Hong Kong

<table>
<thead>
<tr>
<th>Licence</th>
<th>Regulated Activity</th>
<th>Examples</th>
</tr>
</thead>
</table>
| **Type 1** | Dealing in Securities | - Trading/broking stock options for clients  
- Trading bonds for clients  
- Buying/selling mutual funds and unit trusts for clients  
- Placing and underwriting of securities |
| **Type 4** | Advising on Securities | - Giving investment advice to clients relating to the sale/purchase of securities  
- Issuing research reports/analyses on securities |
| **Type 9** | Asset Management | - Managing a portfolio of securities or futures contracts for clients on discretionary basis  
- Managing funds on discretionary basis |

Source: Securities and Futures Commission

5. The Independent Asset Management Market in Hong Kong and Singapore

5.1. Market Breakdown

Asian Private Banker distributed 66 surveys in Hong Kong and Singapore. Given that the independent asset management market in Singapore is bigger and more mature, the research team collected 28 questionnaires from Hong Kong-based entities and 38 surveys from Singapore-based entities. Among them, 43 identified themselves as an IAM, 21 as an MFO, and two adopted “other” as their title.

Chart 2 and chart 3 offer a further breakdown of the contributors based on their location, as well as their title. Furthermore, according to chart 4, Singapore has a higher number of IAMs, while more Hong Kong-based contributors identified themselves as MFOs, compared to their counterparts in Singapore. This should come as no surprise because we observe a higher concentration of UHNWIs in Hong Kong and therefore the label of MFO is preferable.
The AUM of IAMs and MFOs range in value from less than US$100 million to more than US$3 billion. To begin with, 11% of our contributors hold less than US$200 million in AUM. In particular, two firms replied that their AUM were below US$100 million; this is because these firms were established in 2017 and consequently, their clientele is still limited. Next, 35% and 32% of the correspondents replied that their AUM ranged between US$200 million to US$499 million and US$500 to US$999 million, respectively. Finally, 22% of our sample have more than US$1 billion in AUM at the time of reporting.

Moreover, based on our calculations, there are currently approximately 160 IAMs in Hong Kong and Singapore, with average AUM per firm equal to about US$570 million. Therefore we calculate that the AUM managed by IAMs in the two markets to total approximately US$91.5 billion, or approximately 5.5% of HNWI/UHNWI wealth in Hong Kong and Singapore.
Based on our survey data, the number of clients for IAMs varies, as 30% of firms have less than 30 clients, while 27% maintain a clientele of more than 90 accounts.

### Table 4: Market share of IAMs in Hong Kong and Singapore

<table>
<thead>
<tr>
<th>Sample size</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms disclosing their AUM</td>
<td>23</td>
<td>28</td>
<td>51</td>
</tr>
<tr>
<td>Total AUM of contributing firms (in US$ billion)</td>
<td>12.5</td>
<td>16.6</td>
<td>29.1</td>
</tr>
<tr>
<td>Estimated number of IAMs</td>
<td>70</td>
<td>90</td>
<td>160</td>
</tr>
<tr>
<td>Estimated AUM (in US$ billion)</td>
<td>38.1</td>
<td>53.4</td>
<td>91.5</td>
</tr>
</tbody>
</table>

Based on our survey data, the number of clients for IAMs varies, as 30% of firms have less than 30 clients, while 27% maintain a clientele of more than 90 accounts.

### Chart 6: Number of clients per firm

<table>
<thead>
<tr>
<th>Number of clients per firm</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10</td>
<td>25%</td>
</tr>
<tr>
<td>10-29</td>
<td>20%</td>
</tr>
<tr>
<td>30-49</td>
<td>15%</td>
</tr>
<tr>
<td>50-69</td>
<td>10%</td>
</tr>
<tr>
<td>70-89</td>
<td>10%</td>
</tr>
<tr>
<td>90-100</td>
<td>5%</td>
</tr>
<tr>
<td>100 &lt;</td>
<td>5%</td>
</tr>
</tbody>
</table>

![Chart 6: Number of clients per firm](image-url)
According to our contributors, the average headcount of an IAM is 16, of which seven are RMs and three are C-level officials. Based on the findings presented above, we conclude that there are no significant differences between the two markets concerning their AUM and their RM headcount. On the other hand, IAMs in Hong Kong reported 22 clients per RM, while the respective ratio for Hong Kong-based MFOs is two. We attribute this contrast to different client segments which are covered by IAMs and MFOs in Hong Kong. Given that there is a high concentration at the highest economic segment of the population, IAMs cover the lower economic tier of the market and MFOs focus on the more wealthy part of the HNWI/UHNWI population.

The distribution of clients by AUM unveils a somewhat equal segmentation, as 23.8% of clients reported that their AUM range from US$1 million to US$5 million, 46.8% hold US$5 million to US$30 million of AUM, while 25.7% hold more than US$30 million in AUM.

**Chart 7: Client segments by AUM**

According to our contributors, the average headcount of an IAM is 16, of which seven are RMs and three are C-level officials. Based on the findings presented above, we conclude that there are no significant differences between the two markets concerning their AUM and their RM headcount. On the other hand, IAMs in Hong Kong reported, 22 clients per RM, while the respective ratio for Hong Kong-based MFOs is two. We attribute this contrast to different client segments which are covered by IAMs and MFOs in Hong Kong. Given that there is a high concentration at the highest economic segment of the population, IAMs cover the lower economic tier of the market and MFOs focus on the more wealthy part of the HNWI/UHNWI population.
5.2. The Business Model of IAMs in Hong Kong and Singapore

IAMs in Hong Kong and Singapore might be addressing the wealth management needs of HNWIs and UHNWIs in Asia, yet the two countries’ business models entail significant differences concerning issues such as investment strategy, target markets, and revenue mix.

In particular, 61% of our Hong Kong-based and Singapore-based contributing firms adopt a certain AUM threshold for new client onboarding. The average threshold is US$8.7 million among this population; however, it is important to note that three of our contributors responded that their threshold is US$100 million. As a result, we calculated the median threshold, which is significantly lower (US$2 million). In the same context, if we exclude these three contributors, the average threshold becomes considerably closer to the median value, and it amounts to US$2.8 million.

<table>
<thead>
<tr>
<th>Yes</th>
<th>61%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>39%</td>
</tr>
<tr>
<td>Average threshold</td>
<td>US$8.7 million</td>
</tr>
<tr>
<td>Median threshold</td>
<td>US$2.0 million</td>
</tr>
<tr>
<td>Average threshold if exclude IAMs with threshold &gt; = US$100 million</td>
<td>US$2.8 million</td>
</tr>
</tbody>
</table>
Further analysis leads us to the conclusion that for Hong Kong-based IAMs, the adoption of an AUM threshold is less frequent. This is because IAMs in Hong Kong tend to cover the lower economic segments of the HNWI/UHNWI population and, therefore, the adoption of thresholds would be relatively less compatible with their targeted client group, as well as with their business model.

Table 6: Breakdown of AUM threshold by business type and geographical location

<table>
<thead>
<tr>
<th>AUM threshold for new client onboarding</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>IAM</th>
<th>MFO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>56%</td>
<td>64%</td>
<td>59%</td>
<td>62%</td>
</tr>
<tr>
<td>No</td>
<td>44%</td>
<td>36%</td>
<td>41%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Without doubt, 2017 was a successful year for the independent asset management industry, and all our interviewees expressed their satisfaction with their revenue. In line with their assessment, our survey responses reveal that 94% of contributing firms experienced a revenue increase in their latest financial year that reached 42% on average. Interestingly, among them, 38% increased their revenue by less than 25%, while 31% experienced an increase of more than 75%.

Chart 10: YoY increase in total revenue

Overall, this revenue increase is a sign of a scaling-up process, as more than half of those firms which increased their revenue also hired RMs in 2017. In particular, 55% increased their RM headcount by 78% on average, and only 3% reduced their headcount.
Therefore, IAMs in Hong Kong and Singapore achieved an average revenue increase of 42% and they raised their RM headcount by 38%. Finally, we do not observe major discrepancies between Hong Kong and Singapore with respect to their revenue and new RMs.

In parallel with a healthy economic perspective that is reflected in the revenue and the headcount of IAMs, there is a discussion about a possible consolidation process among IAMs in the region. The percentage of IAMs that underwent an M&A process during the last two years, however, is limited to only 7%. On the other hand, a significantly higher percentage, which amounts to 19%, responded that they plan to undergo an M&A process in the next 12 months. This difference validates the dynamics of a possible consolidation process yet within certain limits.

A significant driving force behind this trend is rising costs, as the current average cost-to-income ratio of companies with M&A plans in their agenda is approximately 70%. This trend, along with existing limitations, was discussed at Asian Private Banker’s IAM and Family Office Leaders Conversation (IFLC) in Hong Kong, in June 2017. Attendants concluded that, notwithstanding rising costs and ongoing private banking M&A, the independent asset management industry would not remain in a prolonged consolidation process because of their collective desire to provide client-centric advice and services that puts a cap on the size of each firm.²⁷

Regardless of the revenue and headcount record, the business model of IAMs is primarily based on asset allocation and investment advisory, which account for 53% and 35% of their total revenue, respectively. The focus of IAMs on these activities justifies their interest in hiring people exclusively from the private banking industry.

On the other hand, considering that Asia is undergoing what is often described as “the largest wealth transfer in history”, one should expect that IAMs would be more active in wealth transfer services. However, this is not the case, with many interviewees mentioning that they prefer to pass such mandates to experts such as law firms, trust corporations, and insurance brokers.
Given that asset allocation and investment advisory accounts for the lion’s share of our contributors’ revenues, it is important to examine further their offered services, as well as their product preferences. To begin with, discretionary portfolio management (DPM) is very attractive to IAMs and their clients, with our contributors responding that their investment services breakdown includes 70.8% DPM and 28.1% advisory services.

Moreover, there is a consistent pattern among IAMs in Hong Kong and Singapore concerning the choice between advisory and DPM services. In particular, IAMs in Hong Kong and Singapore offer, on average, 84% and 82% DPM services respectively, while the share of DPM among MFOs in the two markets drops to 62% and 57%, respectively. A possible explanation for this pattern is the fact that MFOs handle bigger portfolios and a larger number of UHNWs who might want to have more control of their wealth. What is more, based on our discussion with family office experts, it is common that UHNW clients join MFOs seeking not wealth creation but rather wealth preservation. Faced with the task of wealth transfer and the tightening regulations, they do not feel confident with their wealth management skills. As a result, they join an MFO and, to quote a globally renowned family office expert, their wealth should be identified as “assets under advisory” and not as “assets under management”. In this framework, the advisory model appears more suitable as opposed to DPM.
On the other hand, when weighed against the firms’ AUM, the share of DPM decreases to 65.8%. This is in line with our finding that MFOs hold on average higher AUM than IAMs, and they offer relatively less DPM services as compared to independent asset management firms.

We also need to note that, based on anecdotal evidence from our interviews, a certain number of IAM firms offer DPM services exclusively and some even set this as a prerequisite for client onboarding. Notwithstanding the difficulties in convincing some clients of the merits of DPM, our interviewees stressed the value proposition of DPM.

This comes into contrast with the DPM penetration rate in private banks where, according to Asian Private Banker’s 2017 DPM Report, the DPM adoption rate is approximately 8%.²⁸

An important reason behind this difference is the fact that within the DPM framework, RMs in private banks are more dependent on their research and investment teams and, therefore, they have fewer profit opportunities, while they are concerned that they will bring less added value to their client. As a result, they prefer the advisory model which, notwithstanding existing risks, will bring higher turnover to private banks and remuneration to them, especially in good years such as 2017. In parallel, the advisory model will allow them to control more effectively the portfolio management, hence, appear as more essential to their clients. Moreover, as expected, 86.4% of products are third-party purchases.

Concerning product preferences, the investment choices of IAMs include mainly equities (47.7%), bonds (24.5%), and funds (11.2%).

**Chart 18: Breakdown of clients’ portfolio**

- Equities: 47.7%
- Cash: 5.5%
- Real Estate: 0.9%
- Funds: 11.2%
- Private Equity: 2.0%
- Commodities: 2.7%
- Structured Products: 2.8%
- Derivatives: 1.2%
- Bonds: 24.5%

Regarding equities, developed markets account for 76.4%, while investment grade and high-yield bonds account for 54.8% and 25.7% of investments in bonds, respectively.

**Chart 19: Breakdown of bond investments**

- Investment Grade: 54.8%
- High Yield: 25.7%
- EMD: 19.5%

**Chart 20: Breakdown of equity investments**

- Developing Markets: 23.6%
- Developed Markets: 76.4%
The investment strategy of IAMs can be characterised as moderately active. On a scale of one to five, with one denoting a very passive strategy and five a very active investment strategy, the average value of our responses is 3.5. The moderately active investment strategy of IAMs in Hong Kong and Singapore is in line with the risk appetite of their clients, which is also moderate. Again, on a scale of one to five, where one denotes the lowest risk appetite and five denotes the strongest risk appetite, the average value of our responses is 3.04.

Chart 21: Investment strategy of relationship managers

Chart 22: Risk appetite of clients

1 = highly passive, 5 = highly active

1 = low risk appetite, 5 = high risk appetite
In parallel, almost one out of three IAMs (32%) responded that they use smart beta, a proportion that signifies the growing popularity of this particular strategy. Moreover, IAMs are applying a broad spectrum of strategies, including fundamental and/or technical analysis, top-down and bottom-up approaches. We also need to stress that 47% responded that they use thematic investment as well.

Chart 23: Breakdown of IAMs’ investment strategy

Chart 24: Smart beta adoption rate
One of the most important categories of thematic investment is impact investment, with 42% of our contributors replying that, on average, 17% of their clients invest in causes that fall under the scope of impact investment and philanthropy. Among different categories, education and environment/ climate change are among the most popular, capturing 36% and 26% of their portfolio, respectively. Finally, based on our discussions not only with IAMs, but also with experts in impact investment, the interest of UHNWIs in impact investment is growing, therefore, impact investment experts and product providers consider them as a particularly promising target group.

Table 8: Clients' interest in impact investment and philanthropy

<table>
<thead>
<tr>
<th>Interest in impact investment and philanthropy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms with clients conducting impact investment and philanthropy</td>
<td>42%</td>
</tr>
<tr>
<td>Firms without clients conducting impact investment and philanthropy</td>
<td>58%</td>
</tr>
<tr>
<td>Average percentage of clients conducting impact investment and philanthropy per firm</td>
<td>17%</td>
</tr>
</tbody>
</table>

Chart 25: Breakdown of clients' preferences for impact investment and philanthropy
The most significant source of revenue for IAMs originates from advisory and asset management fees, which account for 58.4% of total revenues, followed by performance-linked fees with 18.4%. The share of commission and brokerage fees is 14.1%, while retrocession fees reach 9.1%.

The dominant role of advisory and asset management fees in the revenue mix of IAMs is further validated by the fact that they take the highest average price, which is equal to 69.8 bps. Performance-linked fees are on average 65.4 bps, followed by retrocession fees which amount to 43 bps. For reasons of research integrity we need to stress that we excluded three contributors who reported performance-linked fees above 1,000 bps. While such fees can occur, with IAMs whose clients invest in hedge funds, we excluded the specific contributions to avoid skewness.

One of the hottest debates in the IAM industry in Hong Kong and Singapore is around the acceptance of rebates. When asked, 41% of our contributors responded that they receive rebates, although this number is likely to be higher for the whole population. Based on anecdotal evidence derived from our interviews, it is commonplace that some IAMs receive rebates, yet as they consider this issue as very sensitive and highly confidential, we expect that some might have opted not to disclose such information.

Bans on rebates are already in place in some markets, including the UK, which abolished rebates following the Retail Distribution Review (RDR) that was introduced in 2012 and came into force in 2013. The official narrative of the authorities is that they seek to diminish conflicts of interest and help investors cope with the complexity of financial markets, something that was also reiterated with more recent regulatory initiatives such as the introduction of MiFID II. Against this backdrop, trailer fees in Hong Kong and Singapore remain legal but they are currently under scrutiny. Regulators in both markets are tightening the disclosure rules for those who receive trailer fees, making such disclosure mandatory.
In November 2017, Hong Kong’s Security and Futures Commission (SFC) published the results of an open consultation process concerning asset management regulation that addressed the issue of rebates. The common denominator among contributors was that the Hong Kong market is not yet ready to impose a total ban on sales commissions. On the other hand, they agreed that transparency of disclosure is of utmost importance, given that client consent for receipt of soft commissions and/or retention of rebates is a requirement stated in paragraphs 13.1 and 13.2 of the Fund Manager Code of Conduct (FMCC). More importantly, the majority of contributors agreed with the proposal to “restrict intermediaries from representing themselves as being “independent” if they receive monetary benefits from other parties and to require disclosure of their independence or non-independence.”

In parallel, discussions about the ban of trailer fees are taking place in Singapore as well, with some IAMs casting doubt over the future of the specific revenue model. On the other hand, a number of our interviewees expressed their expectation that while disclosure requirements will become stricter, rebates will remain intact, or at least will be tolerated by in Hong Kong and Singapore, because the regulators will take into consideration the impact of a possible prohibition to the economic sustainability of smaller IAMs.

Moving to the other side of the balance sheet, the operational costs of IAMs are equally distributed among various cost centres and activities. The high real estate cost is also reflected in that cost analysis of our contributors, as it accounts for 24% of their operating costs, followed by investment activities and financial advisory.

Chart 27: Breakdown of operating costs

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30 Singapore-based Independent Asset Manager in discussion with the author, January, 2018; Hong Kong-based Independent Asset Manager in discussion with author, January - February, 2018.
It is more important, however, to examine the cost ratio analysis of IAMs in Hong Kong and Singapore, as it will offer us useful insights about the economic sustainability and the prospects of the specific market.

To begin with, 17.9% of our contributing firms reported a cost-to-income ratio below 40%, which is remarkably satisfactory. For the majority of our contributors, the cost to income ratio ranges between 41%-80%, which accounts for 58.5% of the population. Finally, 23.6% of the population reported a cost-to-income ratio which is above 81%. Moreover, based on our surveys as well as on follow-up interviews, we estimate the average cost-to-income ratio to be approximately 65%, which is a somewhat satisfactory score, especially when compared to the performance of private banks.
Based on crosstab analysis, companies with the lowest cost-to-income ratio are those with the highest AUM (US$900 million) and with the lowest number of RMs, which on average is two. Moreover, a key factor behind their performance is that, notwithstanding the YoY boost in their revenues (60%), they increased their RM headcount only by 23%. This denotes a firm which most likely identifies itself as an MFO, and after nine years of operation, it has entered a period of maturity.

On the other hand, the high cost to income ratio (>81%) that we observed for 23.6% of our contributors describes IAMs that, notwithstanding their eight years of operation, are still in an expansion process. As a result, in parallel with their YoY increase of revenue by 63.3%, they raised the number of RMs by 53%. This resulted in a low AUM/RM ratio that is equal to US$22 million, and unavoidably applies pressure to their efficiency. Therefore, we conclude that such companies are in the process of scaling up by hiring additional personnel and potentially bearing higher real estate related costs, something that unavoidably will bring challenges to their economic efficiency.

Table 9: Cost-to-income ratio for IAMs

<table>
<thead>
<tr>
<th>Cost/Income Ratio</th>
<th>Percentage</th>
<th>AUM/firm</th>
<th>RMs</th>
<th>AUM/RM</th>
<th>Change in Revenues (YoY)</th>
<th>Change in RM headcount</th>
<th>Avg. Years of Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 40%</td>
<td>17.9%</td>
<td>900</td>
<td>2</td>
<td>450</td>
<td>60.0%</td>
<td>23%</td>
<td>7</td>
</tr>
<tr>
<td>40% - 60%</td>
<td>24.6%</td>
<td>350</td>
<td>4</td>
<td>88</td>
<td>28.0%</td>
<td>26%</td>
<td>15</td>
</tr>
<tr>
<td>61% - 80%</td>
<td>33.9%</td>
<td>510</td>
<td>12</td>
<td>43</td>
<td>47.5%</td>
<td>34%</td>
<td>15</td>
</tr>
<tr>
<td>80% &lt;</td>
<td>23.6%</td>
<td>240</td>
<td>11</td>
<td>22</td>
<td>63.3%</td>
<td>53%</td>
<td>8</td>
</tr>
</tbody>
</table>
5.3. The Relationship between IAMs and Custodian Banks

The relationship between IAMs with custodian banks plays an influential role in various facets of the examined market. The vast majority of IAMs partner with more than one custodian bank, as according to our interviewees, they seek to benefit from the comparative advantage that each custodian bank has to offer.

Based on our survey data, the average number of custodian banks that an IAM can choose to work with is 6.3, and it ranges from two to 17. Moreover, only 18% of our contributors responded that they adopt a cap on the number of their custodian banks, while a big part of our interviewees acknowledged that while there is no particular cap, “more is not necessarily better.”

Table 10: IAMs’ relationship with custodian banks

<table>
<thead>
<tr>
<th>Number of custodian banks</th>
<th>No.</th>
<th>Does your firm have a cap on the number of custodian banks</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>2.0</td>
<td>Yes</td>
<td>18%</td>
</tr>
<tr>
<td>Max</td>
<td>17.0</td>
<td>No</td>
<td>82%</td>
</tr>
<tr>
<td>Mean</td>
<td>6.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In addition, IAMs take into consideration more than one criterion when choosing their custodian banks. Contrary to mainstream expectations, the size of a bank does not determine the preferences of our contributors. In fact, some interviewees underscored the advantages of working with medium-size private banks, due to the high quality of their offered services.

Our survey contributors identified pricing and credit rating as the most important criteria when selecting custodian banks, followed by the quality of the banks’ IAM desk and their onboarding process. The latter is of particular importance, due to the increasing KYC and due diligence requirements stemming from certain regulatory initiatives such as CRS and Automatic Exchange of Information (AEOI).
The positive momentum for IAMs and MFOs in Hong Kong and Singapore is validated by their new partnership agreements with custodian banks. On average, IAMs partnered with 1.7 new custodian banks in 2017, which was marginally lower than 2016.

It is also important to stress that the top three custodian banks selected by IAMs draw the lion’s share of their AUM. On average, our contributors reported that they book approximately 80% of their AUM in their top three banks. In particular, their most important bank attracts 40.5% of their AUM, followed by 25.4% and 14.9% for the second and the third, respectively. This structure underscores the importance of the top three custodian banks and the limited role for the remaining custodian banks. In other words, on average, IAMs doubled the number of their custodian banks from approximately three to six, yet the top three take the lion’s share of attention, as the remaining three banks receive only 19.2% of their AUM.
The relationship between IAMs and custodian banks is ongoing and some of the areas where they attach the most importance to are those which represent significant challenges and opportunities, such as the quality of IT services, as well as custodian banks’ support on compliance-related issues.

### Table 12: Percentage of IAMs' AUM with their top three custodian banks

<table>
<thead>
<tr>
<th></th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>10.0%</td>
<td>Min</td>
<td>5.0%</td>
</tr>
<tr>
<td>Max</td>
<td>80.0%</td>
<td>Max</td>
<td>50.0%</td>
</tr>
<tr>
<td>Mean</td>
<td>40.5%</td>
<td>Mean</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

The data in the table indicates the percentage of AUM with the top three custodian banks. The 1st and 2nd positions have a higher percentage of AUM, while the 3rd position has the lowest percentage.

### Chart 30: Criteria for interaction with custodian banks

The chart represents the criteria for interaction with custodian banks, with a scale from 1 (least important) to 5 (most important). The criteria include:
- Risk Management Services
- Online Platforms/IT Services
- Responsiveness
- Complicance-related Support
- New Client Onboarding Requirements
- Investment Ideas
- Quality of Research

The chart shows the importance level of each criterion, with Risk Management Services being the most important and Quality of Research being the least important.
5.4. Recruitment and Remuneration of Relationship Managers

Based on a 2017 snapshot survey conducted by *Asian Private Banker*, recruitment is one of the biggest challenges faced by IAMs in Hong Kong and Singapore.³¹ In this context, our survey findings unveil that RMs on average have 7.3 years of professional experience working for an IAM or MFO, and they move to the independent asset management industry after having worked at private banks for an average of 10.2 years.

<table>
<thead>
<tr>
<th>IAM experience</th>
<th>Years</th>
<th>PB experience</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>2.0</td>
<td>Min</td>
<td>0</td>
</tr>
<tr>
<td>Max</td>
<td>30.0</td>
<td>Max</td>
<td>25.0</td>
</tr>
<tr>
<td>Mean</td>
<td>7.3</td>
<td>Mean</td>
<td>10.2</td>
</tr>
</tbody>
</table>

To better understand the recruitment and remuneration model of IAMs, our research team conducted semi-structured interviews with 12 senior representatives of firms across the two markets who supervise the recruitment process of RMs. The vast majority of our interviewees sketched the ideal candidate as someone with about 15 years of experience in private banking, as RMs need to maintain strong professional skills and a robust network of clients, part of which will follow him/her. Hence, we identify a gap between the desired years of experience based on the expectations of hiring firms (15 years) and the actual professional background of the employed RMs (10 years). This denotes the difficulty in recruiting the ideal candidate faced by IAMs in Hong Kong and Singapore, and it validates the findings of the 2017 snapshot survey conducted by *Asian Private Banker*.

In the same vein, most of our interviewees described the recruitment process as being sometimes challenging not because of a lack of potential candidates but due to the question of compatibility between the mindset of RMs and the expectations of IAMs who seek RMs with an entrepreneurial spirit. Once an RM moves to an independent asset management firm, they must cease to identify themselves as an employee and adopt the attitude of an entrepreneur. In parallel, almost all our interviewees informed us that they consider only professionals from the banking industry as potential RM candidates. This is in line with our findings of the dominant role of investment advisory and asset allocation in the IAM business model and the limited interest in other services such as legacy and retirement planning.

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A very sensitive topic is the impact of the recruitment of an RM whose previous employer holds the role of custodian bank of the IAM’s clients. Based on anecdotal evidence, there is no clear pattern concerning the approach of IAMs to this issue. In particular, some of our interviewees replied that they would not employ an RM from one of their custodian banks, while others responded that they decide on a case-by-case basis, and others appear to have no concern about possible conflicts of interest.

The possible complexities in the relationship between an IAM and a custodian bank are validated by the fact that 33% of IAMs reported a lock-up period with an average duration of five months after the recruitment of the bank’s RM. For one thing, the reaction of private banks in the event of an RM transfer largely varies. Therefore, some banks will try to contain the damage by seeking to retain the custody of the biggest part of the assets and they will cooperate with the new employer of their former RM; others, however, will choose to make the departure process as difficult as possible by mobilising their retention team. The latter will take advantage of any lock-up period attempt and they will try to retain their clients by offering lucrative terms and conditions. Hence, based on our interviews with IAMs, the expectations for the AUM that an RM will bring to his/her new firm is below 50%.

Notwithstanding the lost institutional support and the reduced economic security, RMs appear to be satisfied with their decision to move from private banking to independent asset management. Moreover, apart from expectations for higher remuneration, additional important reasons for moving to the independent asset management industry is their expected ability to spend more time with their clients, and the opportunity to choose among a more comprehensive selection of products. Therefore, it becomes clear that their decision is also driven by their investment strategy and their perception about the opportunity to offer a higher quality of services to their clients. In parallel, they expect that joining the independent asset management industry will have a positive effect on their personal life as they will improve their work-life balance.

**Chart 31: Incentives to move to an IAM**

- **Expectation for Higher Remuneration**
- **Ability to Spend More Time with Clients**
- **Broader Product Selection**
- **Less Compliance Burden**
- **Better Work-life Balance**

1 = least important, 5 = most important
Regarding their remuneration, 80.4% of our contributing RMs replied that they are satisfied or very satisfied, and 18.5% appeared as indifferent, while only 1.1% appeared to be dissatisfied. This satisfaction is also reflected by the fact that we recorded only a limited number of cases that involved RMs who moved from an IAM firm to private banking.

**Chart 32: Satisfaction levels of relationship managers**

- **Satisfied**: 74.2%
- **Very Satisfied**: 6.2%
- **Indifferent**: 18.5%
- **Dissatisfied**: 1.1%
The satisfaction of the RMs is validated by the range of their current remuneration as compared to their last annual remuneration when they were working in a private bank. Based on the survey responses, the percentage difference ranges from 0% to 130%, while the average difference is a 44.7% increase. Our survey findings are largely in line with the estimates of our interviewees who gauge the IAMs’ RM remuneration being 50.5% higher and ranging between -30% and +150%.

Table 14: Remuneration of relationship managers

<table>
<thead>
<tr>
<th>Remuneration difference PB vs. IAM</th>
<th>Estimate based on surveys</th>
<th>Estimate based on Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>0%</td>
<td>-30.0%</td>
</tr>
<tr>
<td>Max</td>
<td>130.0%</td>
<td>150.0%</td>
</tr>
<tr>
<td>Mean</td>
<td>44.7%</td>
<td>50.5%</td>
</tr>
</tbody>
</table>

The remuneration of RMs includes two basic components, a fixed salary which accounts for 53.8% of the total annual amount, and commission which stands for the remaining 46.2%.

Table 15: Breakdown of individual annual remuneration

<table>
<thead>
<tr>
<th>Breakdown of individual annual remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly salary</td>
</tr>
<tr>
<td>Min</td>
</tr>
<tr>
<td>Max</td>
</tr>
<tr>
<td>Mean</td>
</tr>
</tbody>
</table>

Similarly, among other issues, we identify a wide array of approaches as in some exceptional cases the remuneration of RMs includes salary exclusively, or it is based purely on commission. Hence, there is a limited number of companies who offer solely salary to their RMs, while in some other cases the IAMs offer exclusively commission-based remuneration. The latter model is based on their belief that, when working for an IAM firm, RMs should forgo the economic security that is provided by banks and instead they should operate as entrepreneurs seeking higher compensation with higher risk. Moreover, in some cases the employers ask their RMs to contribute to the operating expenses of the firm by charging them a fee, albeit a fairly low one; such fee is requested either from the first day of the employment of the RM or after a certain grace period.
5.5. Regulation and Perceived Risks

Notwithstanding the optimism about the prospects of the IAM market, our contributors expressed their concern on occurring risks stemming from regulation, changes in the investment landscape, the return of volatility, as well as risks originating from the increasingly wider adoption of online tools. In this context, investment risk ranked as the highest risk faced by IAMs, followed closely by cybersecurity and regulatory risks.

Chart 33: Level of perceived risks among IAMs

Given the focus of IAMs on investment advisory and asset allocation, it comes as no surprise that investment risk is the most critical source of insecurity. With regard to cybersecurity, recent incidents, such as the 2017 WannaCry ransomware attack, along with the increasing adoption of cloud technologies and online platforms, resulted in firms feeling increasingly vulnerable to such risks. Based on recent studies, enterprises in the Asia-Pacific region are expected to pay approximately US$230 billion for cybersecurity breaches in 2018. According to the Telstra Cyber Security Report, 90% of surveyed businesses in Hong Kong and 80% of surveyed businesses in Singapore increased spending in IT security by at least 5% in their last financial year. Moreover, the SFC calculated that from October 2016 until March 2017, 27 hacking attacks occurred on 12 licensed financial firms, and these led to investor losses totalling HK$110 million (US$14.2 million).

In this context, one should keep in mind that 74% of our contributors use online platforms for their operations. Without a doubt, the ongoing technological developments offer solutions for different operations, with portfolio management and research taking the lion’s share. Consequently, this paves

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the way for more investment and cost-reduction opportunities, especially following the emergence of robo-advisory services and the rise of online platforms.

**Chart 34: Does your firm use electronic platforms for the following tasks?**

<table>
<thead>
<tr>
<th>Task</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Management</td>
<td>60%</td>
</tr>
<tr>
<td>Research</td>
<td>50%</td>
</tr>
<tr>
<td>Trading</td>
<td>40%</td>
</tr>
<tr>
<td>Relationship Management</td>
<td>30%</td>
</tr>
<tr>
<td>KYC</td>
<td>20%</td>
</tr>
<tr>
<td>Compliance</td>
<td>10%</td>
</tr>
<tr>
<td>Sales</td>
<td>0%</td>
</tr>
</tbody>
</table>

Regulation is one of the biggest challenges in the private banking and wealth management industry, with the vast majority of firms focusing on CRS and MiFID II. CRS is OECD’s response to a respective G20 request, it was approved by the OECD Council in 2014 and it calls on participating jurisdictions to obtain information from their financial institutions and to automatically exchange that information with other jurisdictions on an annual basis. The idea was based on the USF Foreign Account Tax Compliance Act (FATCA) and its legal basis lies at Convention on Mutual Administrative Assistance in Tax Matters. The Markets in Financial Instruments Directive II, also known as MiFID II, which was introduced by the European Union (EU), stands as one of the greatest regulatory challenges in the private banking and wealth management industry these days. MiFID II came into force in January 2018 and it has its roots in the Markets in Financial Instruments Directive (2004/39/EC) that came into force in November 2007. It is a basic pillar of the EU’s regulatory architecture of financial markets, and according to the European Securities and Markets Authority, will beef up the transparency and competitiveness of the EU financial markets. To this end, MiFID II regulates investment intermediaries whose transactions involve financial products, including structured products.

Against this backdrop, MiFID II can impact Asian private banks and consequently, IAMs, concerning their products’ distribution business directly, as well as indirectly. For example, if a Hong Kong-based client at an IAM in Hong Kong purchases a structured product whose underlying asset is listed in Frankfurt, the specific transaction is subject to the provisions of MiFID II. As a result, Asia’s IAMs must comply with these European regulations, including transactions and post-trade reporting requirements, research, execution practices, and categorisation of their securities and clients.
The Manager-in-Charge (MIC) regime came into effect in April 2017, and it requires every licensed corporation to nominate and disclose to the SFC at least one MIC for each of eight designated “core functions”, including the licensed corporation’s key business lines. According to a legal expert who contributed to our research, this will create an additional burden to IAMs given the multiple roles they hold towards their clientele.

As a result, our contributors expressed their estimate that the impact of the above mentioned regulatory initiatives will be moderate, with CRS having a slightly higher impact. On the other hand, they appeared to be confident concerning their familiarity with the respective regulations.

**Chart 35: Impact of regulations on IAMs**

![Chart showing the impact of regulations on IAMs with FATCA, MiFID II, CRS & AEOI, and Manager in Charge (MIC) as categories.](chart)

1 = minimal impact, 5 = substantial impact

Further analysis of the data reveals that there are no big differences among IAMs in Hong Kong and Singapore concerning their familiarity with the specific regulations. On the other hand, those who are based in Singapore expect that regulation will have less impact on their business, as opposed to their counterparts in Hong Kong.

**Table 16: Perceptions of IAMs about regulatory initiatives**

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Familiarity</td>
<td>Impact</td>
</tr>
<tr>
<td>FATCA</td>
<td>3.89</td>
<td>3.50</td>
</tr>
<tr>
<td>MiFID II</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td>CRS &amp; AEOI</td>
<td>3.66</td>
<td>3.38</td>
</tr>
<tr>
<td>MIC</td>
<td>4.00</td>
<td>3.50</td>
</tr>
</tbody>
</table>
In order to deal with regulatory issues, IAMs adopt different strategies as they combine in-house solutions and outsourcing. For 39% of our contributors, regulation is conducted exclusively in-house, while the remaining 61% of firms outsource certain compliance operations, which on average account for 20% of their compliance activities.

Chart 36: What percentage of your firm’s compliance related activities are outsourced?

What is more, our contributors responded that they increased their budget allocated to legal and compliance activities from 2016 to 2017 by an average of 23.8%.

Table 17: Change of IAMs’ budget allocated to legal and compliance activities (2016-2017)

<table>
<thead>
<tr>
<th>Change of IAMs’ budget allocated to legal and compliance activities</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>0%</td>
</tr>
<tr>
<td>Max</td>
<td>100%</td>
</tr>
<tr>
<td>Mean</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

Concerning the familiarity and the readiness of IAMs to mitigate the resulting regulatory risks, we need to take into consideration two different parameters. Based on previous research conducted by Asian Private Banker, by late 2017 there were implicit concerns among private banks concerning their preparation strategies towards MiFID II. This, in tandem with anecdotal evidence from our discussions with consultants and legal advisors, leads us perhaps not to question, but to remain moderately confident in our assertion that the levels of readiness of private banks are lower than described. In line with this, legal experts in the region underscored the limited number of personnel who specialise in MiFID II, which is, after all, non-Asian. As a result, we should remain moderately prudent with our verdict that IAMs are well prepared to deal with MiFID II.

On the other hand, we need to take into consideration that professionals who work in the IAM industry are particularly experienced, and also that the members of the AIAM in Hong Kong and Singapore benefited from a wide range of training sessions organised by their associations.
All in all, our interviewees in both markets expressed their concern about tightening regulations. Among others, they focused on the increasing requirements to set up a new business and particularly the process of opening up bank accounts. It is widely accepted, however, that moving from private banks to the IAM industry allows them to spend more time with their clients. In particular, 69% of our contributors replied that, compared to the period when they work for private banks, they spend less time on compliance.

**Chart 37: Compared to your private banking experience, how much time do you spend on compliance at your firm?**

- **Much Less Time**: 25.4%
- **Less Time**: 43.8%
- **Around the Same**: 14.2%
- **More Time**: 11.3%
- **Much More Time**: 5.3%

This is not to say that the respective firms pay less attention to regulatory and compliance issues, but mainly, due to their size, IAMs can be more efficient. For example, in Hong Kong, IAMs, unlike banks, are regulated exclusively by SFC and not additionally by HKMA, the Office of the Commissioner of Insurance and the Mandatory Provident Fund Schemes Authority, which, along with the international banking regulatory framework, have respective regulatory functions over banking. This multi-tier regulatory framework adds additional requirements for private banks as opposed to IAMs.
The satisfaction of RMs who work for IAMs is also reflected in the assessment of our contributors regarding the efficiency of their firms concerning legal and compliance issues. According to 84.1% of our contributors, the IAMs are more efficient, or much more efficient than private banks.

Chart 38: Compared to your private banking experience, are IAMs more efficient toward regulatory issues?

- More Efficient: 66.2%
- Identical: 15.9%
- Much More Efficient: 17.9%
6. The Independent Asset Management Market in Australia

6.1. Introduction: Australia’s Market Outlook

Australia has been delivering uninterrupted economic growth for more than 26 years and is proud to hold the record for the most prolonged period of recession-free growth for a developed country which, as of today, is 105 quarters. During this period, Australia sailed safely through choppy waters, such as the 1997 Asian financial crisis and the 2008 global financial crisis. Its resilience was due to multiple factors including financial and labour market reforms as well as the recent mining boom in parallel with China’s red-hot growth. Over the last two years the Australian economy has grown by 2.5% in 2016 and 2.8% in 2017.³⁵

In parallel with its impressive economic growth, Australia has experienced a steady growth in its HNWI/UHNWI population. Based on existing research, the population of HNWIs in Australia grew from 130,000 in 2008 to somewhere between 260,000-300,000 in 2016, with the estimated wealth reaching US$800-980 billion, or US$3.15 million per person.³⁶ What is more, the population of UHNWIs grew by 85% in the period 2006-2016, and it is projected to increase by another 70% in the current period to 2026. Sydney recorded the highest amount of net inflows (4,000 HNWIs, or 4% of the HNWI population already based in the city), followed by Melbourne (3,000 HNWIs, approximately 4% of the existing Melbourne HNWI population).³⁷

Laurent Roux, an international expert on family offices, notes that apart from an established set of significantly wealthy families, family wealth is basically in its first to second generation of ownership among these populations. The reason for this is that much of the wealth spawned in the last few decades is the outcome of economic development driven by the boom of resources and population growth. Therefore, over the past 25 years, a new generation of entrepreneurs emerged who are currently wealth creators. Moreover, according to Richard Millroy from the Private Wealth Network, an estimated 300 to 400 family offices exist, among which approximately 200 are both well-known and well-established.³⁸

Moreover, the country is an attractive destination for foreign HNWIs/UHNWIs due to the absence of inheritance tax, and the superior standards of healthcare and education services. New arrivals anticipate a higher quality of lifestyle generally. Among others, Sydney and Melbourne are preferred destinations for a big number of British HNWIs/UHNWIs who left the UK in 2017.³⁹

For the reasons mentioned above, and also due to Australia’s mining boom, which is linked to China’s economic growth, the country is a preferred destination for Chinese investment. Australia is also popular among Mainland Chinese HNWls/UHNWls who seek to secure income, diversify against investment and regulation risks, and meet their capital appreciation goals.⁴⁰ Their investment interest spans across a wide array of industries with real estate being a favourite market, and these interests range from smaller shopping centres and offices to residential units and lifestyle properties.⁴¹

As a result of Mainland Chinese investors purchasing almost 40% of all development sites sold in Australia in 2016, the State Council of PRC introduced additional restrictions to real estate investments in their 2017 Overseas Investment Guidelines, with Australia being their main target.⁴² The ramifications meant that Chinese HNWls/UHNWls would face additional legal and regulatory challenges to access the Australian real estate market.⁴³ According to an IAM who specialises in Australia, these regulatory changes may pose an additional challenge, yet they serve as an excellent opportunity for IAMs to bring added value to their Mainland Chinese clients.⁴⁴

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⁴⁴ Australia-based IAM expert in discussion with the author, March 12, 2018.
6.2. The IAM Landscape in Australia

The growth of wealth and the increased number of HNWIs/UHNWIs in Australia has led to higher demand for professional advisers to meet the intensified and complex financial needs of their clients, and consequently to higher demand for IAM services.⁴⁵

Based on preliminary research and existing literature, there are approximately 400 SFOs and between 45 to 50 MFOs, although their presence is less dynamic.⁴⁶ The most important MFOs are the following:

Table 18: Most important MFOs in Australia

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Estimated AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myer Family Company</td>
<td>Sydney, Melbourne, Perth</td>
<td>&gt; US$4 billion</td>
</tr>
<tr>
<td>Mutual Trust</td>
<td>Sydney, Melbourne, Claremont</td>
<td>US$775 million</td>
</tr>
<tr>
<td>GGB Wealth Care</td>
<td>Sydney</td>
<td>US$1-2 billion</td>
</tr>
<tr>
<td>EWM Group</td>
<td>Brisbane</td>
<td>&gt; US$200 million</td>
</tr>
<tr>
<td>Caerus Capital</td>
<td>Subiaco</td>
<td>&gt; US$1 billion</td>
</tr>
</tbody>
</table>

Source: Family Office Connect 2013, 2017

Similarly, the 2013 *Eureka Report* provided a list of major MFOs:

Table 19: MFOs in Australia, 2012

<table>
<thead>
<tr>
<th>Family Office Name</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMF Asset Management</td>
<td>Sydney</td>
</tr>
<tr>
<td>Centric Wealth</td>
<td>Sydney</td>
</tr>
<tr>
<td>The Family Office - Hayes Knight</td>
<td>Melbourne</td>
</tr>
<tr>
<td>First Unity</td>
<td>Sydney</td>
</tr>
<tr>
<td>Fordam</td>
<td>Melbourne</td>
</tr>
<tr>
<td>FORM - Family Office Research and Management</td>
<td>Sydney</td>
</tr>
<tr>
<td>GGBWealthcare (GGB)</td>
<td>Sydney</td>
</tr>
<tr>
<td>Goodman - Private Wealth Advisors</td>
<td>Brisbane</td>
</tr>
<tr>
<td>LBW</td>
<td>Victoria</td>
</tr>
<tr>
<td>Levi Kim &amp; Associates Pty. Ltd.</td>
<td>Sydney</td>
</tr>
<tr>
<td>Mancell</td>
<td>Ivanhoe</td>
</tr>
<tr>
<td>MGI</td>
<td>Melbourne</td>
</tr>
<tr>
<td>Morrows - Morrows Private Wealth</td>
<td>Southbank</td>
</tr>
<tr>
<td>Mutual Trust</td>
<td>Melbourne</td>
</tr>
<tr>
<td>Myer Family Office Ltd.</td>
<td>Melbourne</td>
</tr>
<tr>
<td>Nexia ASR Family Office</td>
<td>Melbourne</td>
</tr>
<tr>
<td>Phillips Financial</td>
<td>North Sydney</td>
</tr>
<tr>
<td>Pitcher Partners</td>
<td>Melbourne</td>
</tr>
</tbody>
</table>

Source: Eureka Report
The Myer Family Office stands out as a prominent MFO in Australia. It was established in the 1990s and it opened its doors in 1999. The company offers a broad spectrum of services including succession and estate planning, taxation, investments, advisory, philanthropy, and even offer financial education for children if needed. The representatives of the Myer Family Office appear satisfied with the steady growth of the firm throughout the years, as it administers the wealth of the 10-member Myer family, which exceeds US$2 billion, as well as the assets of 70-100 other families.⁴⁷ According to Michael Smolders, the Myer national head of Family Office Services, the wealth of the firm’s clients ranges between US$30 million and US$200 million although in quite some cases their assets are above that level.⁴⁸ Hence, Rosplock (2017) noted that the vision and the values of the Myer Family Office serves as an attractor to other families in Australia.⁴⁹

Assessing the number and the market size of IAMs operating in Australia is more complicated because of the high number of existing entities, as well as the different titles used for branding reasons. Based on our research, Australian companies with an IAM business model often identify themselves with alternative titles such as Independent Wealth Manager and Independent Investment Manager, and the number of these companies is cited as being in the hundreds. This observation confirms our earlier argument about the laxity of the concept of independent asset management.

All in all, the specific model is currently on the rise in the Asia-Pacific region, and Australia is also part of this trend, with ongoing consolidation taking place. In parallel, foreign firms are seeking to set a foothold in the market through M&A. For example, in May 2017, Crossinvest Asia, a Singapore-based IAM and founding member of the Association of Independent Asset Managers in Singapore, entered into a partnership with Revolver Capital, which is based in Sydney, to deliver its services in Australia.⁵⁰ Earlier in the same year, Family Office Research and Management Pty Ltd (FORM) merged with Escala Partners Limited.⁵¹

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6.3. The Characteristics and Investment Preferences of IAMs in Australia

The business model of IAMs and MFOs in Australia largely varies. For example, while in some cases MFOs can accept clients with as little as US$5 million, the Myer MFO and other MFOs adopt a different approach, focusing on turnover. According to Smolders, while there is no set amount of wealth required to join, the minimum annual fee is US$50,000.⁵²

IAMs maintain a lower minimum investment requirement. For example, Harper Bernays, an independent investment manager which was established in 1988, requires a minimum of US$1 million.⁵³ Hume Partners, on the other hand, remain in line with the 2001 Corporation Act and provides its services to investors who are classified as wholesale investors. This means that the firm employs a threshold of US$400,000, and for less than this amount, “intending investors must demonstrate [...] that they are a wholesale investor as defined in 761G of the Corporations Act 2001 and can provide a certificate from a qualified accountant that is no older than six months, stating that they have a minimum of US$2.5 million in net assets or US$250,000 gross income for each of the last two years, or that they are otherwise classified as a professional investor.”⁵⁴

Furthermore, advisory appears to be the preferred investment mandate, albeit with some differences, while DPM is attracting increased attention. Based on our interviews with Australia-based IAMs as well as with IAMs in Hong Kong and Singapore who take an interest in Australia, while advisory services dominate the market at this time, they accept that DPM “is the future” and, hence, they try to beef up its adoption levels.

In line with this, a big fraction of firms adopts a more hybrid approach which combines DPM and close consultation with their clients. For example, Hume Partners works within Investment Management Agreement (IMA) for each client, allowing “investment management powers within defined discretionary limits” and using in-house investment managers but also external investment managers, as pre-agreed with its clients.⁵⁵ Similarly, GGB Wealthcare has adopted a fully DPM model which includes 50% in-house investment management as well as outsourcing to sector specialists. EWM, on the other hand, primarily uses an outsourced model of investment specialists.⁵⁶

We can attribute this approach to the fact that the first and the second generation of HNWIs/UHNWIs, who traditionally seek to maintain an active role in investment management and to keep tight control of the family wealth.⁵⁷ According to The Table Club, however, the next generation of HNWIs/UHNWIs will be gradually taking over leadership of the family wealth and, as a result, investment focus includes not only wealth creation but also the preservation of wealth, separation of the family business, and succession planning.⁵⁸

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55 Ibid.
Despite the growing interest by Mainland Chinese in Australia and the increasing number of Asians moving to the country, the Australian wealth sector remains highly localised. In Q2 of 2017, Australia ranked second to last across the Asia-Pacific region (ex. Japan) in terms of HNWI Financial Assets held offshore (35.7%); only Malaysia ranked lower, where the respective percentage was 34.4%.⁵⁹

The increasingly important presence of Mainland Chinese HNWIs/UHNWIs resulted in the establishment of companies such as Richlink Capital and Wealth Spring, who operate as investment managers offering family office and wealth management services that focus on investment opportunities in Australia for Chinese HNWIs/UHNWIs.

The investment preferences of clients are in line with the key industries of the Australian economy, as real estate, energy, mining, retail, and technology have been a boon for HNWIs/UHNWIs in Australia. On the other hand, Tom Murphy, managing partner of FORM, gave an interesting perspective into HNWI/UHNWI investment preferences: “One of the developments we’ve seen is an appetite for unusual international equity opportunities, including the frontier markets. For the past two years, we’ve been investing on behalf of our clients in Africa. Our competitors do not. We have seen a renewed interest in foreign currency-denominated equities, particularly of the North American variety, and direct debt securities (developed markets — sterling, euro and US dollar-denominated).”⁶⁰


6.4. The Relationship between IAMs and Custodian Banks

Australia's banks remain highly localised while the presence of foreign banks are limited, due to the fact that they cannot compete with their Australian counterparts in terms of revenues and market penetration, according to experts on the Australian banking sector.⁶¹ Private banks currently operating in Australia include Commonwealth Private Bank, Westpac Private Bank, ANZ Private Bank, NAB Private Wealth, St. George Private Clients, BankWest Private Banking, Macquarie Private Bank, Credit Suisse Private Banking Australia.

During the last few years, many banks including UBS, Deutsche Bank, and Bank of America Merrill Lynch, decided to close their private banking or investment banking operations in Australia. These structural changes offered a lucrative bonanza comprising of assets and RMs in Australia for local private banks but also for Australian IAMs and MFOs. For example, following the departure of Deutsche Bank in 2016, Escala Partners signed some RMs while private banks, IAMs, and MFOs sought to secure a share in Deutsche’s AUM in Australia that was estimated at just under US$2.5 billion.⁶²

On the other hand, in November 2016, HSBC decided to set up a private banking office in Australia, targeting HNWIs and family offices with at least US$7.8 million in investable assets. What is more, private banks such as Julius Baer, run their IAM business in Australia through EAM desks aborad. In parallel, IAMs, and to a lesser extent MFOs, also compete with Australia-based private banks who often maintain strong relationships and offer wealth management services to families whose wealth is below US$100 million. According to Burkitt (2017), these wealth platforms usually have a minimum net asset value requirement of around US$10 million, excluding the family home.⁶³

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⁶¹ Australia-based asset manager/former private banker in discussion with the author, March 12, 2018.
7. The Independent Asset Management Market in Mainland China

7.1. The Emergence of HNWIs/UHNWIs

Starting from late 1978, when Deng Xiaoping initiated his “reform and opening up policy”, to 2013, China experienced a break-neck growth of 10% on an average annual basis and it lifted more than 500 million Mainland Chinese out of extreme poverty.⁶⁴ In parallel, China’s economic development led to a transition of its economic model, from a manufacturing- and labour-driven economy to a consumption- and service-driven economy. Notwithstanding the recent lower figures of economic growth and the concerns over issues such as the sustainability of the country’s debt, the Chinese economy saw an uptick in growth at 6.9% in 2017. Hence, the International Monetary Fund (IMF) expects China to continue to grow at a controlled rate, with GDP growth projected to fall to 5.8% by 2022.⁶⁵

Despite this ongoing transition of the Chinese economy, the number and the wealth of China’s HNWIs and UHNWIs continues to expand at an unparalleled rate. Before assessing further the trends in China’s HNWI/UHNWI population, it is significant to note that a big number of research reports set the benchmark for HNWI and UHNWI at RMB 10 million (about US$1.5 million) and RMB 100 million (about US$15 million) in AUM, respectively. In 2017, the total number of HNWIs in Mainland China was expected to be more than 1.87 million, and their investable assets were projected to reach RMB 58 trillion (US$9.15 trillion).⁶⁶ By mid-2017, there were also 116,000 UHNWIs, compared to 7,000 in 2006, and according to The Complete Family Office Handbook (2014), billionaires in China now account for over 25% of the country’s UHNW population. Although much of the wealth is still concentrated in the eastern coastal cities, the HNWI population in 22 out of 25 provinces/municipalities is higher than 20,000 HNWIs. What is more, the HNWI population in Beijing, Shanghai, Guangdong, Jiangsu, and Zhejiang exceeds 100,000.⁶⁷ ⁶⁸

In parallel, the profile of the HNWIs has become increasingly diverse. In 2009, first-generation business owners accounted for 70% of HNWIs; that share has shrunk to 41% in 2017. While the initial private wealth boom in China was stimulated by business owners mainly in the manufacturing or energy industries, the new generation of entrepreneurs who inherited wealth from the first-generation business owners tend to specialise in the technology- and innovation-intensive industries. In parallel, the rise of the service sector in China has produced a class of private wealth outside of business owners, with an expanding class of high-level executives, accountants, and engineers. This is one of

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the fastest growing groups of private wealth, accounting for 29% of China’s HNWIs, more than doubling their share compared to 2009.⁶⁹

The majority of private wealth in China has been created since 1990, with more than 80% of HNWIs/ UHNWIs being identified as first-generation. Similar to China’s economic focus, the wealth objectives for HNWIs and UHNWIs also began to shift as they transition from a strong focus on wealth creation to wealth preservation and transfer. Although 55% of HNWIs/UHNWIs claim that they want to develop an inheritance plan, currently less than 20% of the said population have an inheritance plan already in place. This transfer of wealth is commonly referred as “the largest wealth transfer in history,” and will be vital in sustaining China’s HNWI population growth.⁷⁰

One of the most important trends is the flow of domestic Chinese wealth to offshore investment structures. With concerns about regulation and potential currency devaluation, many families want to de-risk their portfolios to preserve their wealth by diversifying into offshore investment opportunities and retirement planning solutions in more regulated and global markets. In parallel, the one-child policy played a formative role in the ongoing wealth transfer because, although retirement planning appears of less relevance to a small family, the possibility of the single child being unwilling to take over the family business, and instead opting to invest the family wealth and “run the money” came up during the research.⁷¹

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7.2. The IAM Landscape in Mainland China

Since 2009, the assets managed by financial institutions in Mainland China have almost doubled, and despite the dominant role of private banks, Chinese HNWls/UHNWls express strong interest in family office and independent asset management services. Although the term IAM is not commonly used, we meet different terms that describe the same business model, such as independent wealth manager or MFOs. According to a study conducted by China Merchants Bank and Bain & Company, awareness of family offices among UHNWls has increased by more than 20% since 2015, with more than 80% of UHNWls having some knowledge about the services offered by family offices. However, their willingness to try these services remain relatively low, with only 40% of the UHNWI population considering the use of a family office for services such as asset allocation and wealth preservation/inheritance. Among the HNWI population, around 50% believe family offices can offer them useful planning and investment advice, but they would prefer to consult these services on an advisory basis rather than on discretionary portfolio mandate.72

Chinese HNWls tend to steer towards private banks when it comes to asset allocation, due to the centralised structures of the bank and the assured confidentiality. Many families often separate and spread their wealth across multiple private institutions, as they have a greater sense of safety when one firm does not solely control their assets. This extra layer of security also ensures confidentiality, as Chinese HNWls often seek to veil the scale and scope of their wealth, even within their own family.73

The precise number of family offices in China is difficult to be gauged as they are branded under a multitude of names, and many are often embedded within the structure of the family business. According to a recent report by Shanghai Senior Financial Institute, 67% of local family offices were established from 2011 to 2016, with more than half of these between 2015 and 2016, and according to experts, there will be a further 1,000-2,000 family offices anticipated to emerge in China in the next decade. Furthermore, according to Patricia Woo, an expert on family offices, most of existing family offices in Mainland China are MFOs.74

Huber (2014), in turn, argued that MFOs will become more attractive to Mainland Chinese once the latter develop a more in-depth understanding of their proposed value, a conclusion that can also be extended concerning IAMs. Hence, Huber argues, the familiarity of Mainland Chinese clients with the independent asset management industry is limited. This was also confirmed by another IAM/family office expert who described that when he visited China to make a relevant marketing presentation, he was asked to adjust the complexity of his presentation material. Hence, the IAM industry is still in a shaping process, as clients have to be educated and, based upon their own experiences over time, realise the advantages of the particular model.75

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According to the study of China Merchants Bank and Bain & Company, approximately 10% of Chinese domestic financial assets are managed by third-party wealth managers, which includes IAMs and MFOs. Chinese wealth managers are adapting to accommodate the growing needs of their HNWI clients by offering diversity in their products and increased digital capabilities.

Though family offices are mainly used to manage investments and create more wealth, the Chinese family office concept is beginning to evolve, as Chinese UHNW families seek advice from professionals not only to manage cash flows in and out of the country but they also turn to family offices for guidance on family governance and philanthropy. As HNWIs and UHNWIs become increasingly aware of their social impact, many of them believe that their wealth should not be limited to their own family and they seek opportunities to return part of their wealth to society through the appropriate channels. Hence, although conventional donations and charity events remain the biggest channels for philanthropic activities, there is a strong focus on investing in children’s education.76

7.3. The Characteristics and Investment Preferences of IAMs in Mainland China

As the HNWI/UHNWI population matures and their wealth objectives shift, the risk-return profiles of HNWIs and UHNWIs are also evolving. According to the research report of China Merchants Bank and Bain & Company, in 2017, only 6% of HNWIs/UHNWIs preferred a high-risk/high-return strategy, significantly lower than from 2009 when the percentage was 20%, a sign of increasing maturity for Mainland Chinese HNWIs and UHNWIs.77

Moreover, Mainland Chinese HNWIs and UHNWIs are becoming increasingly open to investing in equities, bonds, and real estate, as well as alternative investments including private equity and hedge funds. 77% of HNWIs who invested in private equity funds in the past two years reported positive returns, with 34% recording gains of at least 10%.

Another increasing trend among HNWIs and UHNWIs is their interest in moving their assets offshore. In 2011, only 20% of HNWIs had investments outside of their borders — today 56% have investments overseas. Since 2013, the proportion of total portfolios invested abroad stayed relatively consistent with around 25% offshore investments. The destinations of their investments have also diversified, with Australia, Canada, Singapore, and the UK gaining substantial inflows from Chinese HNWIs. Much of this wealth was reallocated from offshore investments in Hong Kong. This is also a significant driving force behind the rise of family offices in recent years as a large number of these were set up with an exclusive mandate to purchase life insurance abroad which would help the client(s) to transfer their assets offshore. Finally, based on anecdotal evidence derived from our field research, Hong Kong- and Singapore-based IAMs are particularly interested in the Chinese independent asset management industry. Establishing a presence, however, is a daunting task that entails numerous challenges. Among others, one interviewee described the difficulties he faced when he attempted to set up a multi-family office in Mainland China, as his firm repeatedly failed to retain local employees who, after the initial training period, would move to Chinese competitors.

8. The Independent Asset Management Market in the Philippines

The Philippines is one of the fastest growing economies in Southeast Asia, with GDP growth, low inflation, and improved fiscal performance. The country’s gross domestic product grew by an average of 6.2% during 2010-2015, compared with 3% average growth in the 1990s. Driven by strong industrial and services output, the Philippines economy grew at an annual rate of 6.9% in the third quarter of 2017, higher than most other neighbouring Asia-Pacific countries, including China. According to the World Bank, the economy of the Philippines is expected to expand by 6.7% in 2018 and 2019, good enough to be the world’s 10th fastest growing economy, and fastest among ASEAN-5 countries.

With a stable and growing macroeconomic environment, the Philippines has seen a significant increase in the HNWI and UHNWI population in the last decade. There is an estimated 15,000 HNWIs and 150 UHNWIs in the country, compared to 6,700 HNWIs in 2006. However, compared to their regional peers, HNWI population growth is moderate, with a 2.6% YoY growth rate, and average wealth per HNWI is around US$3.2 million.

The country ranks second to last in both HNWI density and overall maturity of wealth management among ASEAN-5 countries. Though there is steady growth in the economy, the HNWI/UHNWI population may soon rank last in the region, as Indonesia’s impressive growth projects its HNWI/UHNWI population to push past the Philippines. In addition to the small HNWI/UHNWI population, the over-complicated regulatory environment makes for a challenging market. Most HNWIs/UHNWIs choose to move their assets offshore due to the strict regulation of investment products. However, clients may begin to invest domestically, as recent policy changes have made these regulations more lax.

Currently, the Philippines’ three main wealth products — unit investment trust funds, variable unit-linked insurance policies, and mutual funds — are overseen by different regulators (the Central Bank, Insurance Commission, and Securities and Exchange Commission, respectively). As a result, the overlap with multiple regulators handling different financial products impedes the penetration of investment products.

The wealth management industry is still in the early stages of development in the Philippines. IAMs have limited ability to compete with similar service providers from both local and subsidiary banks; at this stage of development, clients are not aware of alternate options. A study conducted by BPI Capital showed that

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over 90% of clients believe that banks and online channels (47% and 50%, respectively) would be the most dominant distribution network in the next five years. What is more, the contributors to the research reported that they were not interested or unaware of independent asset management firms.85

Currently, there are six banks which are accredited by Bangko Sentral Ng Pilipinas (the central bank of the Philippines, also known as BSP) to offer custodian services: Bank of the Philippine Islands, Citibank, Deutsche Bank, Hong Kong and Shanghai Banking Corporation, Standard Chartered Bank, and Philippine Depository and Trust Corporation. In parallel, more foreign banks are looking to set-up representative offices in the Philippines as regulations ease and the banking system stabilises. In 2014, then President Benigno Aquino III signed Republic Act No. 10641; under this policy, foreign lenders can account for 40% of the banking industry’s assets.86

Despite the narrow product range and the limited market space for IAMs in the Philippines, the industry continues to grow, and there is potential for expansion, says Deanno J. Basas, president of the Fund Management Association of the Philippines and Managing director at ATR Asset Management. Ultimately, it is up to the regulators to ease up on the restrictions that hinder the growth of maturity in wealth management services. Until there is a wider range of products offered onshore, HNWIs/UHNWIs in the Philippines will continue to look to move their assets offshore where they can diversify their investments.

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9. The Independent Asset Management Market in Thailand

Being one of the so-called “Four Asian Tigers”, Thailand stands out among emerging Asian economies as it moved from a low-income country to an upper-income country in less than a generation. Following a period of impressive economic growth when its’ economy grew at an average annual rate of 7.5% from 1960 to 1996, and 5% from 1999 to 2005, Thailand’s economy achieved an average growth of 3.5% over 2005-2015, with a dip to 2.3% in 2014-2016. Currently, the country is on the path to recovery, and growth is projected to reach 3.5% in 2017 and 3.6% in 2018.

Thailand’s remarkable economic development is witnessed by the wealth growth of the country’s 100,000-plus HNWI/UHNWI population whose investable assets rose by 13% to US$548 billion in 2016, the second-fastest growth in Asia-Pacific region after Indonesia, according to a recent research conducted by Capgemini. Moreover, the surge of the Thai stock market has paved the way towards further wealth creation; for example, in 2017, Charoen Sirivadhanabhakdi, Thailand’s richest person and owner of Thai Beverage Pcl, increased his wealth by 44% to US$16.7 billion, and Dhanin Chearavanont, the largest shareholder of Charoen Pokphand Group, more than doubled his fortune to US$5.3 billion.

Notwithstanding the strong momentum in their wealth growth, wealth management offerings to Thailand’s HNWIs are still limited to basic financial products. What is more, the majority of HNWIs have limited knowledge of financial products, and given that 70% of them are entrepreneurs, they prioritise their business expansion. As a result, for many years they considered banks as potential sources of financing support, rather than platforms for the cultivation of wealth. In this context, Rosplock (2014) notes that family business offices are the norm in Thailand and consequently, the number of MFOs is limited. On the other hand, there is a handful of international MFOs with a presence in Thailand, such as Probus Group.

During the last two to three years, however, a series of regulatory initiatives attracted the attention of foreign private banks whose presence in the country is limited. In 2015, the Bank of Thailand raised the limit on offshore purchases by US$50 million annually and lifted the cap on foreign currency holdings in domestic banks. Furthermore, in January 2016, the Thai regulator relaxed the rules for the access of domestic investors to global funds, while starting from March 2017, the Securities and Exchange Commission of Thailand issued rules that allowed asset managers to set up hedge fund-like products for domestic institutional and high-net-worth investors.

According to Jirawat Supornpaibul, executive vice president and head of private banking of Kasikorn Bank, “we have experts on investment in Thailand, but if you want to invest globally you need insight from elsewhere in the world.” Supornpaibul’s comment was made on the occasion of Kasikorn Bank’s

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2015 agreement with Lombard Odier to partner and offer “global standard” private banking services to HNWIs/UHNWIs in Thailand.91

Local banks and wealth management firms recognise the necessity to seek synergies with foreign private banks and wealth management firms allowing them to meet their clients’ spurred demand for overseas investments. In this context, the IAM model becomes increasingly popular in Thailand and according to Aniruddha Ganguly, Executive Director and Head Financial Intermediaries Singapore at UBS, more and more skilful people plan to launch IAM firms in Thailand. Ganguly underscored the focus of domestic banks on HNWIs/UHNWIs, as well as their interest in cooperating with Western wealth managers and private firms on family office and succession planning services.92 An example of such a trend is the Hong Kong-based Aquitaine’s Investment Advisors (Type 9 licence), which offers its services to professional investors within Asia, including IAMs and UHNW investors in Thailand.93

Moreover, during our field research in Hong Kong and Singapore, some representatives of IAMs expressed their interest in accessing Thailand. On March 8th, 2018, Julius Baer announced its agreement with Siam Commercial Bank to establish a joint venture, subject to certain conditions and regulatory approvals, to offer wealth management services to Thai clients. According to Jimmy Lee, a Member of the Executive Board and Head Asia-Pacific at Julius Baer, “the Thai client community is increasingly seeking sophisticated advisory, investment demands and global solutions.”94

In parallel, a number of our interviewees projected that, given the current dynamics in the Thai financial market and the increasing interest of domestic investors in overseas investments, HNWIs and UHNWIs in Thailand would seek to work with local IAMs that will maintain custodian relationships with foreign banks. This will provide them with access to foreign markets and it will assist them to bypass domestic bottlenecks in the local private banking market and the limited presence of international private banks.

10. Conclusion

This research paper constitutes a thorough analysis of the independent asset management industry in the Asia-Pacific region with a focus on Hong Kong and Singapore. Towards this end, it provides a market breakdown and underscores the positive outlook for the market, as the number and the market share of the respective entities exceed previous expectations. Despite ongoing challenges, such as regulatory changes and questions over the future of rebates, the IAM market remains robust.

The notion of an IAM is rather broad, as it also includes firms which identify themselves using different labels such as MFOs and EAMs. From a conceptual perspective, there are differences between these concepts, yet the firms that fall within the category of the independent asset management industry form one of the most dynamic segments of private banking and asset management in the Asia-Pacific region. Apart from different identification strategies, IAMs and MFOs adopt different strategies regarding their offered services and their targeted market and as a result, they have different sustainability thresholds which, in the case of comprehensive MFOs, can exceed US$150 million in AUM.

Furthermore, while it is commonly agreed that Hong Kong and Singapore form a highly promising independent asset management market, they lag behind the EU regarding market share and maturity. In Europe, there are multiple IAM hubs, such as Switzerland, Germany, Luxembourg and London, with the former being the most important market. The differences, however, between Switzerland and the Hong Kong/Singapore markets underscore that, notwithstanding the potential of Asia, the two cities have a long way to cover before they reach the Swiss levels of maturity. In Switzerland, there are about 2,500 firms that manage approximately US$430 billion in AUM;95 These numbers are in stark contrast with Hong Kong and Singapore, where the AUM of the IAM industry is estimated at approximately US$91.5 billion, equal to 5.5% of the market.

A large number of our research findings validate the dynamism of IAM markets in Hong Kong and Singapore; 94% of contributing firms experienced a revenue increase, and 55% ramped up their RM headcount in their latest financial year. On the other hand, this growth process leads to setbacks on their economic performance, something which is reflected in the IAMs’ cost-to-income ratio and their plans for future M&As. In particular, while almost 20% of IAMs entered a maturity period and they have impressive cost-to-income ratios which are below 40%, 23.6% of our contributors are experiencing a cost-to-income ratio of above 80% as a result of an ongoing scaling-up process.

The dynamics of the IAM market are also witnessed by other examined markets — especially in Thailand where the prospects for the wealth management industry are particularly promising. This is also proven by the interest of domestic IAMs and domestic private banks in partnering with international private banks, such as the recent partnership between Julius Baer and Siam Commercial Bank.

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In contrast, Australia maintains a rather localised private banking market and a mature wealth management industry where we cannot expect significant changes for IAMs. In Mainland China, the unprecedented economic growth and the rising numbers of HNWIs and UHNWIs also led to the emergence of family offices and wealth management firms who seek to accommodate the complex needs of their clients. The Mainland Chinese market, however, is still in a very early stage of development concerning familiarity with the proposed value of the specific model and the accessibility for foreign firms. Finally, in the Philippines, the IAM model has a limited presence, yet the country’s economic prospects might change the momentum.

While there are no surprises concerning the product preferences of clients, we need to stress the high acceptance of DPM by IAMs, as opposed to private banks in Hong Kong and Singapore. In particular, the penetration rate of DPM among IAMs reaches 70.8%, with some IAMs offering solely DPM services and certain Australia-based IAMs underscoring their interest in this specific offering.

On the other hand, while the investment strategies of their clients do not entail any surprises, IAMs face a significant challenge vis-a-vis their revenue mix, which is the adoption or not of rebates. Based on our survey responses and existing literature, only 31% of our contributors claimed that they receive rebates, however, based on our interviews with IAMs and private banks, we conclude that the true percentage is significantly higher.

While rebates remain a taboo topic for many firms in Asia, the authorities of Hong Kong and Singapore are following the example of other regulators, and they have initiated a discussion about whether they should ban rebates. Given the importance of rebates to the economic sustainability of numerous IAMs, especially the smaller and the newer firms, we should expect that at least in the short run, the regulators will focus on disclosure requirements. However, this may impose further pressure on IAMs to quit receiving rebates and either change their business model or consider other options, including possible M&As and active advisory. As a result, we expect a growing adoption rate of the fee-based revenue model, on behalf of IAMs in Hong Kong and Singapore.

Despite the challenges, which include recent regulatory initiatives such as MiFID II and CRS, the IAM industry remains lucrative for RMs who choose to move from private banks to the independent management industry. Apart from higher compensation, which is on average more than 40% higher, working for an IAM will offer RMs the opportunity to focus more on their clients. The fact that private banks are the primary pool for talent acquisition for IAMs is one of the reasons behind the limited offering of succession planning services from IAMs.

Due to the holistic mandate of IAMs, as well as the fact that Asia is currently undergoing “the biggest wealth transfer in its history”, one would expect that succession planning services would cover a big part of their business. Our findings, however, reveal that their interest in succession planning and insurance products is limited, because the business model of IAMs focuses on investment advisory and asset allocation, as does the background of RMs.
On the other hand, the need to adopt an entrepreneurial spirit and the lost institutional support can be considerable challenges for RMs. Under these scenarios, it is important for the hiring IAM and the private bank to maintain a working relationship, especially if there is an agreement between them for custodian services. IAMs treasure their relationship with their custodian banks, yet their criteria concerning the custodian banks they choose to work with are not quantitative, but instead focus more on the quality of services and the sophistication of the custodian bank.

In conclusion, as the economy of the Asia-Pacific region is gearing up for the next transformation, IAMs can build on the progress made so far, while facing new challenges and opportunities. Against this promising backdrop, future research on IAM should include topics such as retirement planning and wealth transfer, the evolution of IAMs’ revenue mix, the impact of the fourth industrial revolution on IAMs, and the prospects for the South East Asian markets.
Bibliography


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