FEATURE ARTICLE

A SHIFTING DISTRIBUTOR-MANUFACTURER RELATIONSHIP

TIGHTENING REGULATIONS AND AN INCREASING PREFERENCE FOR REAL ASSETS ARE MAKING IT TOUGHER FOR REGIONAL ASSET MANAGERS TO STAND OUT IN THE EYES OF DISTRIBUTORS AND END-INVESTORS. CHRISTIAN STAUFFER, CHIEF EXECUTIVE OFFICER AND FOUNDING PARTNER OF EUROFIN ASIA GROUP, LOOKS AT WHERE THE RELATIONSHIP BETWEEN PRODUCT MANUFACTURERS AND DISTRIBUTORS CURRENTLY SITS, AND WHAT THIS MEANS FOR HIS COMPETITIVE LANDSCAPE.

The past few years have witnessed a marked shift in the dynamics in the relationship between distributors, product manufacturers and end-investors in the Asian funds space.

According to Christian Stauffer of EuroFin Asia Group, this has been driven by two changes in particular.

On the distribution side, product gatekeepers have become much more stringent regarding the types of managers they will allow access to their platforms. These days, most distributors are increasingly only looking to partner with highly-institutionalised and experienced manufacturers. Onboarding a newly-established fund manager is a challenge, and unlikely, he explains.

Secondly, demand for certain types of investment strategies and assets is leading to a focus on those managers which can fulfil that appetite.

Although, he adds, this is more of a "moving target".

HIGHER HURDLES

Regulators have also been making their mark.

Requirements to set up a product manufacturing capability have become stricter, with watchdogs making it more difficult for smaller, and potentially riskier, players entering the space.

Much of this, insists Stauffer, stems from the drive for harmonisation of policies; Asian fund centres have been seeking higher levels of regulatory credibility to put them on par with the most established fund hubs globally. Inevitably, this has caused start-up costs to rise.

An increasing issue for new, smaller firms, he says, is they struggle to attract the attention of regional investors, who tend to give funds which

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Christian Stauffer
EuroFin Asia Group

have assets under management of under US$100 million with a wide berth.

Many newcomers can, therefore, find themselves in a vicious cycle: the initial investment tends not to cover initial set-up costs, and investors then deem the fund or manager unsustainable. In turn, this further reduces the likelihood of more investment.

FLAVOURS OF THE MONTH

In terms of investment appetite, the past year or so has seen increasing demand among wealthy investors in Asia for back-to-basic income products.

"Flavour of the month" offerings have focused more on asset-backed products, private lending, and a return of private equity, to a certain extent.

This has been to the detriment somewhat of more sophisticated products, including hedge funds and Commodity Trading Advisers (CTAs).

This is similar to what happened during the financial crisis in 2008, says Stauffer. "Investors are looking for income, and as a result the more complicated products are proving harder to sell."

As a result, it is currently a greater challenge to take a bet on equities and other listed securities than on real-economy, real asset-backed products. According to Stauffer, relative performance to market conditions is now skewed highly in favour of real assets.

FINDING A NICHE

Yet the higher entry barriers and more difficult ongoing regulatory environment haven't stopped some firms which have a strong conviction in their offering and the opportunity which Asia presents.

There has been a flurry of managers looking to establish new businesses in this time zone. Yet determining which of them will actually succeed is difficult, says Stauffer.

For EuroFin Asia, he credits much of the firm's success since setting up in Singapore in 2003 to its niche market focus. Via its asset management arm, he says the privately-held firm prides itself in being a highly-specialised product manufacturer, focused on developing funds based on trade-, commodity- and asset-backed financing.

> "The philosophy is directed at becoming better specialists, rather than simply growing in a quantifiable way."

But while undoubtedly a happy recipient of the more recent interest generally in the real economy, Stauffer points out that much of the firm's potential growth is based on increasing its brand awareness.

"The philosophy," he explains, "is directed at becoming better specialists, rather than simply growing in a quantifiable way."

Stauffer also emphasises the value in treating investors as partners. "We don't create a product for the sake of it." Instead, investment strategies are based on a real demand across a group of investors.

And despite the competitive nature of the Asian funds landscape, he perceives little direct competition for that segment of the market in which EuroFin Asia operates.

This is partly due to the fact that real asset-backed fund businesses of this kind can require three times as many personnel to run, he adds.

WHERE NEXT?

Ultimately, a lack of competition presents a conundrum for the development of the current market.

Without new market entrants – and particularly in a more risk-averse environment – product innovation is stunted, explains Stauffer.

One of the possible areas where he foresees a shake-up in the distribution model is the recently-launched ASEAN CIS Framework.

While this passporting scheme is currently geared more towards the retail space and enabling local firms to sell across borders, there is scope for it to expand beyond that, argues Stauffer.

In particular, it could prove a driver in expanding product offerings for institutional investors. "Asia is completely under-equipped when it comes to distribution of alternative funds," explains Stauffer.

Aside from traditional, large long-only equity houses, it was previously difficult for an offshore fund house to distribute in local Asian markets.

The new framework, therefore, might drive the type of distribution innovation which the industry needs. ■