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Corner Office Views

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Views provides market-leading insights and tangible
takeaways for senior executives seeking to strengthen
and scale their business models.

About the Author



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Analyst, Asia

Jaslyn leads the research for two of Cerulli's annual reports: *The Cerulli Report—Asset Management in Southeast Asia* and *The Cerulli Report—Institutional Asset Management in Asia*. She also contributes to *The Cerulli Edge—Asian Monthly Product Trends* and generates quantitative analysis to support strategic consulting engagements. Specifically, Jaslyn covers the asset management markets of Hong Kong, Malaysia, Singapore, and Thailand.

Prior to Cerulli, Jaslyn was with the Asia Pacific asset management research team at PwC. Prior to that, she worked briefly with Prudential as a financial consultant during her penultimate years of university.

Education

Nanyang Technological University, Singapore
Bachelor of Science (with Honors) in Mathematics and Economics

Areas of Expertise

- Southeast Asian market coverage
- Data analysis and modelling
- Data visualization

Recent Project Work

- Competitive analysis of Singapore's Central Provident Fund Investment Schemes
- Strategic market entry evaluation of the Malaysia asset management market
- Reconstruction of the new *Cerulli Edge—Asian Monthly Product Trends*



The Evolution of Institutional Sales in the Pandemic Era

Outsourcing opportunities abound, but managers must adapt to the new digital age.

Key Points

- There are still plenty of outsourcing opportunities, albeit at smaller mandate sizes.
- The COVID-19 pandemic is accelerating technology adoption for asset owners and managers. Managers have begun developing bespoke digital platforms.
- Institutions are increasingly involved in their investment processes; managers will benefit from the use of dedicated relationship professionals.

Increased Outsourcing

In Asia, the insourcing of investment capabilities by institutions has been increasing in recent years. In February 2020, the Korea Investment Corporation announced plans to open an office in San Francisco to improve deal sourcing capabilities for technology start-ups and other alternative investments. In July 2020, Korea's National Pension Service announced plans to hire 200 more employees over the next four years, with the aim of reducing external management fees by close to KRW700 billion (US\$581 million).

Nonetheless, insourcing takes time. Chinese institutions, especially insurers such as PingAn Life, Taikang Life, and China Pacific Insurance Company (CPIC), have revealed plans to aggressively ramp up their foreign investments and are looking to establish or expand their offshore investment management arms in Hong Kong. In the meantime, they still have to rely on external managers' global expertise. In February 2020, CPIC picked five managers to manage a US\$500 million global multi-asset mandate.

Therefore, Cerulli still believes that there will be plenty of outsourcing opportunities, albeit at smaller mandate sizes. Amid the low-interest-rate environment, institutions—especially those with massive asset pools—will seek to diversify yields and maintain competitiveness between their internal and external teams. Diversification is no longer done only at the asset class level, and institutions are increasingly considering managers that can complement the investment styles of their internal teams as well as their existing manager rosters.

Institutions will seek to maintain competitiveness between their internal and external investment teams.

Outsourcing Requirement 1: Bespoke Digital Platforms

Asset owners can leverage technology to improve the pace and efficacy of investment decisions, and Cerulli believes that the COVID-19 pandemic is helping accelerate this adoption among both asset owners and asset managers. Most of the asset owners that responded to Cerulli's survey believe that digital solutions will help to streamline investment and administrative operations, identify suitable investment opportunities, and improve returns or achieve outperformance. In fact, asset owners, especially the larger and more sophisticated ones, have already started harnessing technology and data analytics to improve returns, deal sourcing, and manager selection.

In 2019, Bank of Korea (BOK) strengthened its risk management software to include pre-emptive inspection and projections of changes in global financial regulations, thus improving the timeliness and data coherence provided by external managers. BOK has also developed and utilized relative-value trade strategies, using arbitrage to generate additional investment gains. Meanwhile, Muang Thai Life Insurance has been building its artificial intelligence capabilities help identify and manage risks. Using the Thai equity portfolio as a pilot test, the insurer is hoping to extend this capability to its global equity

Asia Ex-Japan Asset Managers' Views on the Challenges Faced When Dealing with Asset Owners, 2020

Source: Cerulli Associates | Analyst Note: Regional managers with businesses in multiple countries in the region were surveyed.

1=Least relevant, 5=Most relevant



strategies in at least two years. Such developments could mean that managers will likely face tougher selection requirements, expectations, and greater performance monitoring by these asset owners.

Despite the high initial capital expenditure, the use of technology could, in the long run, reduce the cost of servicing institutional clients. Some managers have even transformed their digital solution platforms into revenue-generating businesses. However, even as asset owners aspire to build their in-house digital capabilities, high costs and finding the right talent and vendors pose the

two greatest obstacles for asset owners.

In areas such as managing asset-liability risk and returns and incorporating environment, social, and governance (ESG) factors into investment processes, asset owners, especially pension funds, are more likely to engage external vendors for digital solutions. Life insurers, on the other hand, prefer to engage external vendors for their digital expertise in areas relating to ESG incorporation, cost reduction, and cash-flow management. This, in turn, offers new business-to-business

opportunities for managers.

Not surprisingly, solutions targeted at streamlining investment and administrative operations, as well as client relationship management and RFP-tracking databases, are rated among the three most effective ways to win mandates across all institutional types. For pension funds and life insurers, managers rated having digital tools to match asset-liability risk and returns as one of the top-three priorities. In dealing with other types of institutional clients, having digital infrastructure that could help reduce costs and manage cash flows were of greater importance. However, given limited resources, expertise, and time, institutions and managers recognize that available platforms are not one-size-fits-all solutions, catering to multiple investment functions and asset classes. These industry players end up running on multiple infrastructure systems, some offering

portfolio risk/returns simulation and scenario testing, others performing trade settlements and fund administration.

Therefore, in developing multifunctional and holistic bespoke platforms, managers often find themselves collaborating with each other, or simply acquiring other providers. The current low-yield environment could act as a stress test and differentiator for many managers, including their platforms and underlying models.

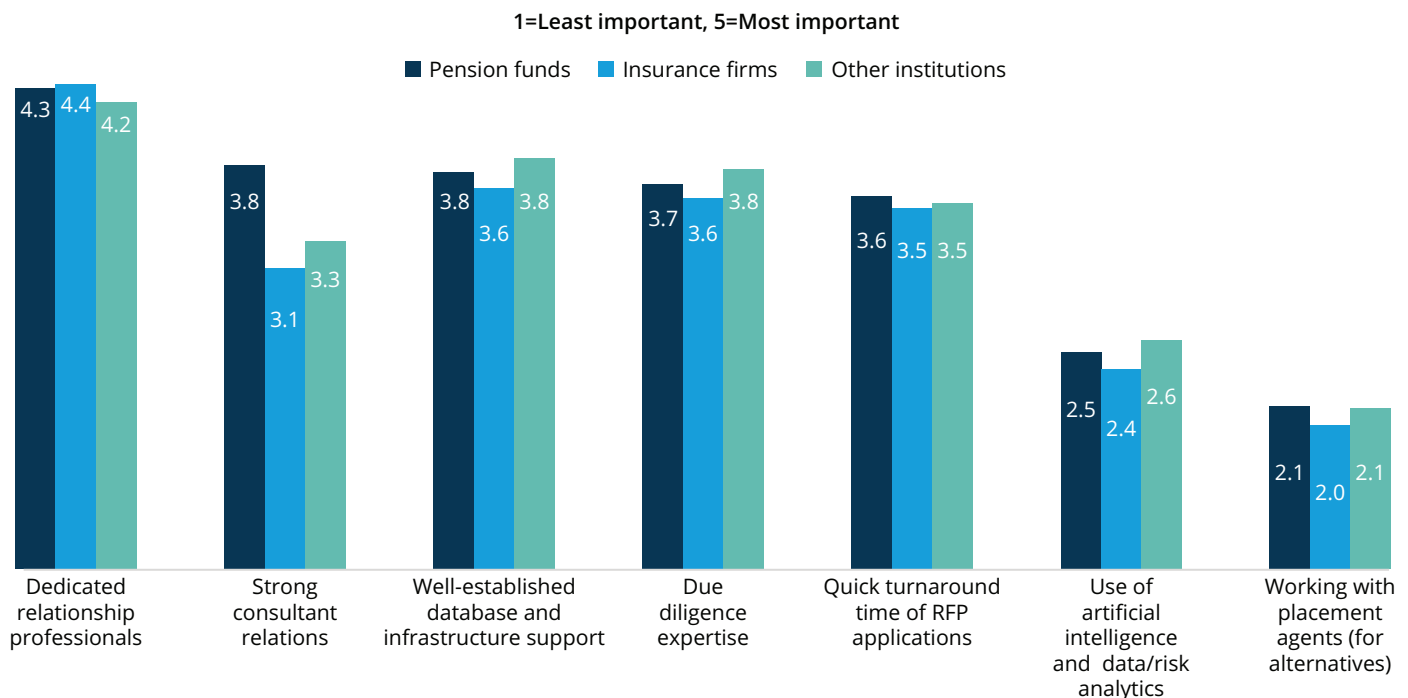
As digital adoption among asset owners grows, the managers Cerulli surveyed rate managing risk-return expectations as the greatest challenge when dealing with institutions. Managers told Cerulli that asset owners require even more frequent and timely updates on market outlook and portfolio performance during this period of high volatility. Greater

transparency and granularity of investments are also expected as part of managers' services. Therefore, digital marketing is essential in contacting and maintaining communication with asset owners. As part of their outreach strategies, managers regularly hosted webinars during the lockdown periods to educate clients and provide market updates and trends.

Pension funds engage external vendors for managing asset-liability risk and incorporating ESG factors into investment processes.

Asia Ex-Japan Asset Managers' Views on Factors Increasing the Chances of Winning Mandates, 2020

Source: Cerulli Associates | Analyst Note: Regional managers with businesses in multiple countries in the region were surveyed.



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Outsourcing Requirement 2: Build Rapport

Even before the pandemic, institutions were becoming increasingly involved in their investment processes, from asset allocation to manager selection and monitoring. With asset owners' growing preference for working directly with managers, building relationships is important. This is in line with the findings of Cerulli's survey, which show that asset managers see having dedicated relationship professionals as the most important factor in increasing the chances of winning mandates from all types of asset owners.

Establishing a personal connection via specific contact points allows for an easy flow of communications and updates between managers and asset owners. Among the managers surveyed by Cerulli, portfolio managers and institutional sales representatives are the largest groups of employees and are the top priorities should these managers decide to increase staff numbers over the next three years.

Fostering relationships with asset owners is especially relevant amid the travel restrictions imposed due to the pandemic. The restrictions have slowed down investment outsourcing and some asset owners have put mandates on hold due to the difficulties of conducting due diligence. According to Cerulli's survey, asset owners rate onsite due diligence as the most important factor in making investment decisions and selecting managers. Therefore, for existing relationships built before the pandemic, due diligence had likely already been conducted and thus these managers have an advantage during the selection process. In fact,

Cerulli understands that asset owners across the region found comfort in investing via existing managers, and those managers with strong relationships and track records continued to see top-ups during the year 2020.

Staying agile in the new norm

Institutions are gradually gaining sophistication and increasingly adopting technology to empower themselves to make more effective investment decisions and manager selection. However, Cerulli believes that active management and investment outsourcing are still vital to help them diversify and seek higher returns amid current market volatility. As part of the shift toward a new norm of technology adoption and increasingly collaborative outsourcing relationships, managers need to be agile in their approaches and continuously build and maintain rapport with their institutional clients, as well as explore new opportunities in areas such as bespoke digital platforms.

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Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

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