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Income

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New Kid On The Block Adopts A *'Think Local, Act Global'* Approach By Jason Lee

It might be viewed as the new kid on the block in the asset management business but Manulife Asset Management Singapore (MAMS) reckons it has the capabilities to stand side by side with the bigger and more established players in the industry.

It has only been a year since Manulife Asset Management Singapore (MAMS) – which is part of MFC Global Investment Management (MFCGIM) – obtained the Capital Markets Services license but the relatively new entrant in the asset management business has wasted little time in making its presence felt. In mid-September, MAMS launched five new funds and has expressed confidence that it will be able to stand side by side with the more established players in Singapore. INVEST speaks with Ms Jill Smith, Vice President & Managing Director, MAMS, as well as two other fund managers to find out more about the new funds, as well as the factors which MAMS reckons would set it apart from its competitors.

ABOUT THE NEW FUNDS & CONSTRUCTION OF PORTFOLIOS

Of the five funds, four are Singapore-based funds – namely the Singapore Equity Fund; Singapore Bond Fund; Singapore Money Market Fund; and Singapore Balance Fund – while the fifth is the Greater China Opportunities Fund. Two of these funds are feeder funds: The Balance Fund feeds into the Singapore Equity Fund and Singapore Bond Fund while the Greater China Opportunities Fund is actually a feeder into an existing Luxemburg product managed by MFCGIM out of Hong Kong.

The five funds are available to all types of eligible investors, said Ms Smith. “It could be to an institutional investor, it could be to a high net worth individual and also to the retail public,” she said, adding that MAMS does not offer these products directly to the public as it is “effectively a wholesaler of retail products”. Instead, MAMS is seeking to promote the new funds to potential clients primarily through Manulife’s financial planners. At the same time, the products will also be distributed through financial advisers and banks, Ms Smith added.

RIGOROUS PROCESS IN CHOOSING THE PORTFOLIO MIX

The process in constructing the portfolio is rigorous as MAMS ultimately aims to deliver the best performance for its funds. Take for instance the

Manulife Singapore Equity Fund, which is managed by Ms Amy Low, Head of Equities, MAMS. The company believes that stocks selection is the best opportunity to add value and hence it adopts a bottom up approach in stock picking.

Ms Low and her team would start off by exploring interesting ideas, and one of the sources of ideas is the benchmark used by MAMS, the MSCI Singapore. While the FTSE STI does not serve as a benchmark for Ms Low’s team, it is used as a source of ideas. The other part of the idea generation phase would involve a combination of visits to the companies and usage of research reports. “We also use thematic screening where we identify themes and from there, we could spot some of the companies that could fit into our theme. Lastly, we also hold regular discussions with our regional office. There are times when we identify some interesting ideas that could have implications for the Singapore market,” she said.

The next stage is fundamental analysis, which Ms Low described as the “heart of the stock selection process”. The team would examine quantitative factors such as earnings growth, as well as qualitative factors such as the quality of the management, industry life cycles, corporate strategy, corporate governance, and risk factors. They will then study the valuations of the company to determine whether it has been fairly valued or whether there is potential for upside surprises from earnings.

“From there we will narrow the list down to 40 to 45 stocks based on our stock selection criteria. We will then begin the portfolio construction phase, and the portfolio will comprise about 30 to 35 stocks,” Ms Low said. “The final phase of portfolio construction is really where our best ideas lie – after studying the stocks. We will also overlay this with the risk management tool... The portfolio will be constructed based on client or fund and internal guidelines, requirements and risk parameters.”

GOING FORWARD

Following the experience of the recent financial crisis, investors want to

go back to basics, said Ms Smith. "People want very transparent, sound, sensible and consistent products – not necessarily conservative but they want long-term products with a good foundation."

A solid foundation would provide more opportunities for asset management players such as MAMS to reach out to a wider clientele base with more product offerings. In fact, Ms Smith revealed that MAMS plans to launch another suite of products sometime soon – probably in March 2010. While she declined to elaborate further on the range of "exciting products" which MAMS might want to launch next year, she noted: "Manulife works in 10 territories in Asia, so we could be looking to fill some gaps in the market here."

Going forward, MAMS aims to build up a "sensible and logical group of funds" on a medium to long term basis, said Ms Smith. "That doesn't mean to say we must have dozens and dozens of funds. We just want to have the right products for the wide range of potential clients here in Singapore."

MAMS' COMPETITIVE STRENGTHS AS COMPARED TO THE BIG BOYS

While Manulife is ranked as one of the leading life insurance companies in Singapore today, where would MAMS – the new kid on the block – stand in the asset management industry?

EXTENSIVE FOOTPRINT ACROSS ASIA

Besides its status as a global asset management company, MAMS believes that it has a strong edge in the form of a wide footprint across Asia, where it has fully-fledged investment operations in 10 different countries. "There are many good investment managers out there but we think we have an advantage as a group in Asia because we manage monies both in fixed interest and in equities from 10 locations at the moment," Ms Smith said.

According to Ms Smith, the fund managers in each individual country will gather extensive information about their respective country and the data pool is subsequently centralized at the headquarters in Hong Kong. The information can then be filtered to each individual country whose fund managers might want a detailed report of certain issues

which would assist them in their respective decision-making process. "What we are trying to do is to communicate and form a very strong collaborative network of all these information across Asia," she added.

Mr Akira Okada, Head of Fixed Income, MAMS, said: "In my view, what differentiates us from other asset management companies is what I could term a 'Think Local and Act Global' approach." "Think local" -that would mean a complete understanding of the local markets, a requirement that is not difficult for MAMS to fulfill since it has professionals based in 10 locations in Asia. "Hence if we need to understand what is going on in Vietnam, we can ask our colleagues who are based there and have a complete understanding of the characteristics of the local market. In this sense, we have a first-hand account of the relevant information, we 'act global' " Mr Okada added.

Concurring, Ms Smith noted: "All our managers in each country have an extremely good understanding of not only what is going on in the local companies, about the local markets and local interest rates, but also of the region. We also receive global views and information from our head office in Toronto. Hence, we offer a global expertise with a local insight."

And while some companies may boast of having an established presence in large markets such as China, not many of them have offices in smaller markets such as Indonesia and Vietnam, Ms Low noted. "We have offices in these countries and we believe that our track record and expertise in these emerging economies will set us apart from the competition," she added.

BRINGING TOGETHER A POOL OF TALENT

Although the MAMS office is relatively new, Ms Smith is quick to highlight another key strength of her team – the wealth of knowledge and expertise the team members such as Mr Okada and Ms Low possess. "We have got lots of years of experience in the team even though we are a new entity. We brought together people with many years of expertise and who have been very successful in their own fields and we seek to establish a collaborative style with a distinct local insight. We believe such a strategy will enable us to beat the very best of the top names in this industry," Ms Smith said. ■

A FUND MANAGER'S VIEW ON THE GLOBAL RECESSION AND PACE OF RECOVERY

The global economy may have hit the bottom of the recession, said Mr Akira Okada, Head of Fixed Income, Manulife Asset Management Singapore. "On a quarter-to-quarter basis, countries such as Germany and Japan registered small growths. Singapore's growth in the second quarter was incredible – a 20.7 per cent jump," he noted.

Going forward, Mr Okada warned that there are still many uncertainties – one of which is the weak consumption in the US due to its sluggish labour market. At the same time, balance sheet adjustment by corporations, individuals and banks could also hamper the pace of recovery, Mr Okada suggested. "When they reduce their debt, they also reduce consumption. This kind of global balance sheet adjustment is one risk for the global economy."

And while Mr Okada remains upbeat that a recovery could be seen in 2010 and 2011, he reckons that the growths of developed countries will be slow for the next few years. "Before this global financial crisis erupted, there were many risk takers in the market, such as investment banks, private equity funds and private investors who provided the economy with cheap money. But after the global crisis, the banks and investment banks will be regulated by the governments," he explained. "We believe these regulations will reduce the risk taking in the banking sector. That means we are unlikely to register high growths, especially in the developed countries such as the US, Europe and Japan, when compared to the years before the global crisis."

While the developing countries such as China and India might experience a different story, the global world, especially developed countries, will register slower growths for the next few years, Mr Okada noted.

Manulife Singapore Empowers Clients With Its One-Stop Shop Model *By Jason Lee*

Jason Lee speaks with Mr Nick Czolak, Senior Vice President of Wealth Management, Manulife Singapore, to find out more about the key factors which differentiate the company from its rivals as well as some of the issues facing the insurance industry today.



Please tell us what differentiates Manulife Singapore from other insurance companies.

One key aspect which differentiates us from many insurance companies is the model we operate – the one-stop financial shop. We are able to offer our clients a full range of financial advice – from general insurance to life insurance to investment products and wealth management.

Another aspect is that we do not sell just our own brand. Many of our competitors would have unit trusts managed possibly by external managers but they would all be branded with their own company name. For us, we will sell our products alongside those manufactured by managers who we consider to be among the best in the market. Hence names such as Schroders, Franklin Templeton, UOB, and Aberdeen, are among those which we consider to be appropriate for our clients to look at, review and select.

Tell us more about the one-stop shop model.

The one-stop shop concept is something that Mr Darren Thomson (President & CEO of Manulife Singapore) has been trying to develop within Manulife Singapore; as a consequence we distribute a number of different products from partnered suppliers. In other words we can now sell general insurance products from MSIG that we market as our own. Health products from Aviva sold under our own brand, step by step, piece by piece, we are trying to complete the jigsaw so that clients can come to Manulife and be offered more of the products which are available in the market. I think there is a lot of room for more collaboration in the market where the client can get access to more products without having to source for them from various different points.

However, there are probably certain segments that we won't really go near and those are banking products which don't really associate themselves with what we do. Certainly Manulife doesn't have the profile of a company which offers products like structured notes, issues, which have had troubles in the past.

In your view, is there room to promote fee-based advice in the insurance industry in Singapore?

I think in an ideal world, if we can classify financial advisors as professionals, then clients will readily pay fees for advice. Unlike some professions which are always in demand – such as lawyers, accountants or even doctors – financial advisors and wealth managers are still a push service. Clients don't really knock on our doors and say, "Please come and sell me your advice". Hence that tends to be confusing to potential clients in a scenario where I am asking to see you to offer my experience

and expertise. However, before I can say anything, you got to agree to pay me a fee. That's a strange relationship to develop. It is different from a scenario where the client knocks on my door and says, "I need your advice. I need your help". Until that dynamic changes, it will be difficult to charge advisory fees to the clients.

The other challenge is that with financial products, there is no immediate identification of result whereas for the other professionals I have described, such as a doctor, you see immediate results within weeks or months or even days. Hence the challenge revolving around fee-based consultancy is less tangible and the client has to be pretty comfortable to part with their money before they actually receive the benefits.

While I agree that fee-based advice is desirable, and would probably lead to better financial advice and better results in terms of client satisfaction, I think we've got a bit of a way to go before we get there.

It has been a more than a year since the financial crisis erupted. Do you see a return in confidence amongst investors/clients?

As an insurance company, we see new business growing. We have seen sales of investment-linked products improving significantly from where they were earlier this year. This tends to suggest that there is more confidence in the market and clients are returning back to the more riskier asset classes than they have been in the recent past.

What can wealth managers do to instill more confidence in this industry?

One of the key problems that led to a loss of confidence was that the wrong product had landed into the wrong hands. I think there's a combination of two critical factors here. One is maybe the advisors were not trained well enough to understand the complexity of the product. However, I also think there is another endemic problem – that is the lack of disclosure from clients and maybe a lack of demand for disclosure from the advisor.

You can only give good advice if you have sufficient information available to you. And what happens in Singapore and other territories is that the lack of disclosure tends to create a transactional environment, where people are buying products off the shelf.

I think financial institutions have to find of a way of encouraging the clients to disclose more, otherwise the same problem will persist. You have people putting their life savings in products but don't know why they bought them or sold by so called advisors who don't fully understand the needs of the customer. That's not a good situation. ■