Publication: Ignites Asia
Date: 23 January 2014
Headline: China's HNWIs warming to third-party managers

China's HNWIs warming to third-party managers

Article published on January 23, 2014
By John Sedgwick

Employing third-party managers is gaining popularity among China's wealthy individuals as the younger, "more open" second generation begins to take the reins of private businesses in the mainland, says Annie Koh, Singapore-based associate professor of finance at Singapore Management University.

Annie Koh, Singapore Management University

The next generation has been exposed to Western education, they are more sophisticated in their business outlook, and they are more open to "trusted" non-family advisors to help manage their assets, she says.

China could be set for a large-scale transfer of business and asset ownership as the country's first generation entrepreneurs reach retirement age. More than three million private businesses in China will have to deal with succession issues in the next three to eight years, Koh says, quoting figures from the Chinese Academy of Social Sciences during a Bank of Singapore roundtable in November.

Many first-generation business owners in China are now very keen to separate their personal wealth from their business assets, and a gradual shift of focus from growing to preserving assets will also usher in family offices to service the country's high-net-worth individuals (HNWIs), Koh says.

The spate of financial liberalisation measures in China will also allow greater overseas asset allocation for risk diversification and investment opportunities and promote growth in private banking and wealth management penetration for HWNI assets, she adds.

Lee Woon Shiu, Bank of Singapore

Entrepreneurs in China have been focused solely on building businesses over the past 20 years, while investments have not figured heavily in their minds as a means of wealth

preservation, says Lee Woon Shiu, Singapore-based head of wealth planning, trust and insurance at Bank of Singapore.

Even now, pitching investments that could bring just 8% or 9% annual return while they are achieving 30% to 40% growth through investments in their own business in China is not an attractive proposition, he says.

He says China's HNWIs must be educated on the importance of risk management and wealth diversification, perhaps through offshore trusts that are managed on a long-term basis by professional asset managers.

Concepts of asset protection and offshore diversification have gained traction in the past two years as profits have been harder to come by due to rising labour costs and slowing growth in certain sectors, according to Lee.

Entrepreneurs involved in low-end manufacturing, for example plastic bags in Shenzhen or Dongguan, have been willing to take money off the table to engage in more stable and long-term investment, he says.

HNWIs in China's 2nd-, 3rd-tier cities

Bank of Singapore has had success advocating asset protection and success planning strategies, particularly with clients from Beijing and Shanghai who tend to have more international connections, making them more comfortable with offshore investments, according to Lee.

The bank services China's HNWIs through its parent, OCBC Private Bank in Shanghai, as well as through its Singapore and Hong Kong offices, he says.

Although more than half of China's high-net-worth wealth is still in Beijing, Shanghai and Guangzhou, there is untapped, burgeoning wealth in second- and third-tier cities, where wealth management and third-party asset management is still at a nascent stage, he says.

There is a lot of "mega wealth" in Chengdu, and almost all HNWIs from the west of China will have some assets or presence situated in the city, he says.

Outside Beijing and Shanghai, there are growing numbers of HNWIs in Ningbo, Hangzhou, Suzhou and Tianjin in the east of China seeking offshore investment advice, he adds.

For such clients, Lee emphasises a process of education in creating an investment portfolio, starting with basic investments in bonds or equities and only through time increasing exposure to higher-risk strategies perhaps including private equity.

Many HNWI clients in China prefer simple investments "without too many bells and whistles" and are just ready to embrace plain-vanilla investments in equities, bonds and mutual funds, he says.

Lee says Bank of Singapore's open architecture structure provides many of these best-of-breed strategies from third-party asset managers.

For a new client with US$10 million in assets, he may recommend US$500,000 to US$1 million in investments in a third-party strategy as a start to evaluate performance and generate confidence before the client commits to putting in more money.

Building trust in third-party managers

On average, six out of 10 Chinese HNWIs already have one or more private banking relationships, according to studies, and many still value asset growth over asset preservation, Singapore Management University's Koh says.

Despite an increasing interest in asset management services, most HNWIs in China view it as very difficult to grow alpha by investing in public markets via third-party managers, she says.

At the moment, the view held by many HNWIs is that wealth grows through building new business and that monetising assets too quickly will mean wealth won't grow further, she says.

Bank of Singapore's Lee agrees, saying most clients do not rely on local stock markets and are still focused on organic growth and increased investing into their own businesses.
As China's ways of doing business become more Westernised, the trend is set for more of the mainland's HNWIs to actively invest more in public markets, both within and outside China, Koh says.

Over time, third-party managers must work hard at building solid trust in relationships with their HNW clients in China who measure trust in terms of both personal relationships and capabilities, she says.