Value Partners
Investing through discipline

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Value Partners Group Limited
2021 Annual Results Announcement
Investor Call Transcript

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Conference Call Participants

Ms. June Wong, *Value Partners' President*
Ms. Steffanie Yuen, *Value Partners' Managing Director*
Ms. Nikita Ng, *Value Partners' Finance Director*

Presentation

Moderator: Thank you for joining the Value Partners' 2021 Annual Results conference call. The call will begin with a presentation by management followed by a Q&A session. I would now like to hand over the call to Steffanie Yuen, Managing Director from Value Partners. Thank you.

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Steffanie Yuen: Thank you, operator. Welcome to Value Partners' 2021 annual results conference call.

I am Steffanie Yuen from our investor relations team, joining me on the call today are Ms. June Wong, President of Value Partners and Ms. Nikita Ng, our Finance Director.

Our presentation today is comprised of three sections. I will first provide a brief overview of our 2021 key highlights. After that, Nikita will provide a more detailed financial review of our 2021 performance. And June will conclude with our latest business and strategy updates. We will then open up the floor for questions.

2021 was a challenging year for Asia's financial markets, especially for China. But despite challenging environment, Value Partners remained profitable, achieving net profit of 458 million HK dollars. Total expenses decreased 36.9% as a result of stringent cost control. Our balance sheet remained strong, with a cash balance of 1.7 billion HK dollars and zero corporate debt. And the firm is recommending a final dividend of 8 HK cents per share for the year.

Looking ahead, despite short-term volatilities, we remain positive on the long-term outlook of the industry driven by a few key favorable macro trends; and continue to execute upon our 3 prong strategies of strengthening our sales and distribution network, expanding into new asset classes and product themes and capturing opportunities of the onshore China market, which June will provide more details shortly.

With that, I would now like to hand it over to Nikita, to go over our financial review in more details.

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Nikita Ng: Thank you Steffanie. Good evening everyone, thank you for joining us today.

Year 2021 was a difficult year for Value Partners. At the beginning of 2021, investors were first concerned about inflationary pressures and growth moderating. Market sentiment was further dented during the second half, driven by China's regulatory crackdown on various sectors. With the unfolding of China property developers' credit events, the entire Chinese high-yield bond market suffered quite badly.

Despite this challenging environment, the Group still remained profitable and achieved a net profit of 458 million Hong Kong dollars for the financial year 2021, down by 67% from last year's result. Our total revenue decreased by 50% to 1,282 million Hong Kong dollars which was mainly attributable by the decline of gross performance fees by 86% to 200.5 million Hong Kong dollars. As at year end 2021, one of our equity funds – our flagship Value Partners High-Dividend Stocks Fund, was still able to reach its respective high water marks despite the market volatility.

With a resilient AUM base of our flagship funds, our Gross management fees only decreased slightly by 8.5% 927 million Hong Kong dollars.

Total expenses excluding management bonus remained comparable to prior year. In addition, unrealized investment gains from our house investments, also contributed a decent share to our net profit for the year with a resulting earnings per share of 24.7 Hong Kong cents for 2021.

Total dividends per share was 8 HK cents with a dividend payout ratio of 32%. Return on Equity was 8.6%.

On the next slide, the Group's AUM stood at 10.0 billion US dollars at the end of 2021, down from 14.2 billion US dollars. While, it is important to note, our average AUM only slightly dropped by 3.1% to 12.2 billion US dollars as compared to last year.

During the year, we recorded net redemptions of 3 billion US dollars. The earlier said regulatory crackdown, especially on the property section, impacted the Chinese high-yield bond market quite significantly. We noted from our distribution channels that investors have turned exceptionally cautious in allocating their assets, with some deciding to hold cash over the near term. The AUM outflow during the year was mostly from one of our flagships – the Greater China High Yield Income Fund, which saw major redemptions. However, fund outflow pressures are not isolated to a single firm, but across China & Hong Kong regional fixed income vehicles investing in the entire credit spectrum.

During the year, we saw strong demand for one of our Asian Multi-Asset Strategies with significant AUM growth to 347 million US dollars. There was continuous inflows into our flagship Greater China Equity Strategies and thematic Healthcare Strategy, being offset with a one-off termination of a white-label product.

Our annualized net management fee margin remained stable at 59 basis points compared to last year's 61 basis points, with the slight decrease mainly attributable by reduced AUM on a higher margin fixed income fund.

Now, let's take a look at the AUM analysis.The charts show the breakdown of the Group's AUM using three classifiers: brand, strategy and geographical region. Our own branded funds remained the biggest contributor to the Group's AUM, standing at 82%.

By strategy, absolute return long-biased funds, which takes up 72% continued to represent the largest share of the Group's AUM. It is followed by fixed income funds, which took 23%, where Value Partners Greater China High Yield Income Fund was still the largest contributor.

In terms of geography, clients in Hong Kong continued to represent the largest segment, contributing 60% of the Group's AUM. And, there was a notable rise in the share of AUM from Japan, which now contributes 6% compared to 3% at the end of last year. This was driven by increased subscriptions in our Innovation and Healthcare strategies leveraging our successful strategic partnership with a leading Japanese broker. The share of AUM contributed by clients in Mainland China remained stable at 9%.

Moving onto next slide on cost management, the Group continues to exercise stringent cost discipline. We will keep fixed operating expenses adequately covered by net management fee income, which is a relatively stable source of income.
For 2021, the Group reported a fixed cost coverage ratio of 1.6x. The fixed expenses remained stable as compared to prior year. We will continue to take a cautionary stance in cost management in order to manage future business headwinds and develop longer-term strategic projects.

Moving on to next, the Group continues to run a strong balance sheet as at 31 December 2021, with net assets stood at 5.3 billion Hong Kong dollars and 1.7 billion Hong Kong dollars in cash and cash equivalents. We also continued to maintain a position of zero debt.

In 2021, we have continued to deploy our house money into our own funds in order to seed and incubate new products to expand our product suite to capture new investor demands, and also strengthen the alignment of interest between fund investors and our Group.

As at 31 December 2021, our house investment portfolio is diversified for risk mitigation. Other than investments in our Real Estate Fund, majority of our house investments are in our own open-ended funds with high liquidity. We shall continue to manage our balance sheet with prudent cash liquidity buffer to meet operational needs as well as our longer-term strategic growth plans and initiatives.

And this is the end of our financial review section. Next, I would like to hand over to June Wong, our President to go over our business and strategy updates section.

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June Wong: Thank you Nikita. Good evening and thank you for joining us today. It is my pleasure to be speaking with all of you - investors and analysts - for the first time, as President of Value Partners.

2021 was a rather challenging year due to the volatile market conditions. In spite of that, the firm remains profitable with a very strong balance sheet.

And in the thirty year history of Value Partners, it has weathered through many market cycles. Looking forward, we remain firmly positive about the mid to long-term prospects of the firm. And I would like to first share and highlight to you three key industry macro trends I see playing out that are highly favorable to us.

First, if we take a look at slide 13 of the presentation, the wealth management opportunity in Asia is significant. Client assets in Asia Pacific continue to grow across all segments. Specifically, asset and wealth management AUM, which represents Value Partners' focused client segment, is expected to enjoy significant growth in the coming years to reach US$65 trillion by 2025 if we combine ultra net worth with mass affluent, implying a 7.4% CAGR from 2020 to 2025.

The key driving force of this growth is from China. Driven by rising household wealth and capital markets reform, Chinese household investable financial assets is expected to grow at 10% CAGR through to 2025. In particular, demand for mutual funds and private funds is expected to outstrip categories such as deposits, as households search for higher yield and regulators continue to drive development away from the shadow banking sector into capital markets.

Next, onto slide 14, I wish to highlight the second macro trend, which is the increasing and very real demand by global investors to create standalone China mandates as China as an asset class has become "too big to ignore".

Historically, global institutional investors typically gain their China exposure via their investments through Global Emerging Markets mandates. However, as the size of the Chinese capital markets continues to grow at a much faster rate than the other emerging markets, the percentage of China in global emerging market indices have become very significant, dwarfing the percentages of the other emerging markets. At full A-share inclusion for example, the total exposure would increase to more than 40% of the equities index. So global institutional investors therefore increasingly see the need to carve out dedicated China portfolios to be run by China expert fund managers, as evidenced by our M&G win. We see this as an important growth opportunity with the global institutional client base.

Now moving onto the next page is the third growth driver that I would like to highlight to you here. As you would all agree I hope and be aware of, ESG is a topic that has emerged to be an important structural trend of the industry.

Global sustainable fund assets grew by US$1 trillion in 2021, as asset managers repurposed existing products and also launched new products driven by strong client demand. In Asia, despite being a relatively late comer in terms of ESG adoption, the pace is also picking up. And we see strong interest not only from the traditional institutional segment but across all client categories globally and locally.

I will now move on to talk about how Value Partners is positioned to capture these powerful structural drivers of growth.

First, we continue to strengthen our senior management, sales and marketing capabilities. In Hong Kong, our headquarters and home market, we have enhanced our management leadership with senior appointments across front, middle and back office functions.

To highlight a few key hires, we have our Chief Operating Officer, Ms. Winnie Lam joining us last July, who has three decades of experience in the fund management and financial services industry across Asia. Under Winnie's leadership, we are confident our middle and back office will be able to scale efficiently as we ramp up new initiatives. In the past weeks, we also announced the appointment of Ms. Ellen Tsang as Managing Director, Head of Marketing & Communications and also Mr. David Wong as Chief Risk Officer, and both are industry veterans with more than 20 years of experience in the industry.

Of course, there is also myself, who joined Value Partners last October and brought with me three decades of business and general management leadership experience at a number of global asset management organizations!

We have also been strengthening our relationship with existing key bank and insurance channels by adding resources to our Client Portfolio Manager team. This should help meet client demands on investment communications and product development more effectively. We are also developing relationships with new online platforms as we look to capture new opportunities in the more digital savvy demographics.

Now outside of our home market, as I highlighted earlier, we see robust demand from overseas institutional investors looking to create specialized China mandates. Global pension and endowments currently only have around 3-5% of their portfolio exposure in China, and there is huge potential for that number to grow. We have actually seen inbound enquiries from institutional investors more than doubled from 2020, driven by strong brand recognition from our key win of the GBP 500 million mandate from M&G in late 2020. We will be upgrading our leadership in the Europe region, with our new Managing Director grade Head of Europe, Middle East, Africa joining us in Q2.

Turning to Southeast Asia, we also see strong interest from asset owners to increase allocation to China. At the same time, Singapore is a key wealth management hub alongside Hong Kong. We have strengthened our leadership with the appointment of Mr. James Ong, an industry veteran with more than 25 years of experience, to be our Head of Southeast Asia and CEO of Singapore late last year.

And finally Japan, with years of cultivation of our strategic partnership with Daiwa, the AUM contribution has doubled from 3% to 6%. Riding on the success of our previous two co-branded funds, we launched a new thematic fund with ESG considerations in Q3 last year, driven by rising demand for ESG products as I mentioned earlier.

Next, I want to provide an update on our success and progress in terms of asset class expansion and investment in ESG.

2021 was really a testament to the success of our asset class expansion strategy. Against the backdrop of challenges facing the China equities and high yield fixed income markets, our flagship High Dividend Asian Equity Strategy had a solid year, and we also saw strong net inflows into thematic funds such as our Healthcare and Innovation Strategies. Our real estate private equity fund recorded strong performance and provided diversification of earnings source for the Group. But a key item I wanted to highlight with you all is the successful build-out of our Multi-Asset franchise in the past year.

Now on page 21, we can see that multi-asset has been the fastest growing fund category in Hong Kong: its market share has almost doubled to become 1/3 of gross retail sales. Riding on this trend is our Asian multi-asset product, with the strong consistent first quartile performance, we saw its AUM grow 4 times in 2021.

We believe the product has potential to become another flagship billion dollar size product as more key channels will be onboarding the fund; and we are about to have a key breakthrough launch with a top local channel in the first half of this year. And amid the backdrop of rising interest rate, inflation and volatility, we believe demand for dynamic income-oriented multi-income strategies will continue to be strong.

Next, another key item I wanted to share more on, is our progress with ESG. We have made a conscious decision to invest in our ESG franchise. Not only simply because it is a growing industry trend but because we firmly believe that as a supplier of investment products, embracing ESG would provide better risk-adjusted returns for our clients and all of our stakeholders. Therefore, we are setting very distinct goals for ourselves on this front in the coming year, riding on the back of our last milestone of becoming a UN PRI signatory in 2019.

We have built a dedicated ESG investment team, and we believe we are one of the few Asian independent asset managers who has successfully incorporated ESG into its investment process. In 2021, we achieved 100% portfolio coverage of listed equities and fixed income issuers with our in-house proprietary scorecards, and have launched our first product with ESG considerations in Japan.

Driven by strong client demand, we have plans to roll out more ESG-related products in 2022. We firmly believe that ESG will continue to be a long-term competitive advantage for us in years to come.

Besides the investment front, we are also fully embracing ESG as a firm, and you will also see a significant step up of our annual ESG report in our upcoming annual report, detailing how we incorporate ESG across all of investment and business activities.

Now next, I'll provide an update of our China business which continues to be a very key part of our strategy.

China remains to be the single largest market opportunity for foreign asset managers to tap into. Estimates forecast China to become the largest mutual fund market by 2030.

I would like to start by highlighting a few key breakthroughs in terms of the macro and regulatory environment in the last year.

First, the final implementation of the New Asset Management Rules mark a new era for the industry, as legacy implicit guarantee products will be phased out, setting a more favorable level playing field for foreign asset managers.

Next, there have been recent changes in regulations allowing foreign players to gain full or majority control of asset management licenses, which means firms like Value Partners are no longer constrained to existing quota schemes such as MRF and QDLP to access the retail market.

Also, we saw favorable new measures such as the launch of the Greater Bay Area Wealth Connect late last year, which allowed us to access a very wealthy region that is 10x the population of Hong Kong. This also further cements Hong Kong's role to be the gateway to channel capital flows in and out of China.

Turning to slide 25, you will see that in Value Partner's 13 year history operating in Mainland China, we have had a successful track record in being able to seize upon opportunities presented by regulatory tailwinds. We were the first Hong Kong asset manager to obtain the QDLP license, the PFM license and the QFLP license.

We are currently one of the largest foreign PFM managers and have continued to be well-recognized by the industry. Just to highlight the most recent accolade, we were awarded the Best WFOE House in China by Asia Asset Management in January 2022.
Looking ahead, we see four key growth pillars for our China business in 2022.

First, our institutional book is poised for growth with the end to the transition period of the New Asset Management Rules. The team is also tapping into the new growth segments such as Fund of Funds and Manager of Managers strategies.

Our WFOE business was recently granted additional QDLP quota late last year and we are working closely with a top-tier domestic bank to launch our first RMB hedged product.

On retail, we are very excited about the prospects and plan to continue to leverage two existing schemes. On MRF, we continue to broaden distribution network, as there is at least another US$1bn of runway before the two existing products reach its distribution cap. And we are also planning to submit application for a third MRF product. On GBA Wealth Connect, we currently have three eligible products, with two already onboarded onto our partners' shelves.

And finally, with the recent relaxation in regulations which allows foreign asset managers to obtain full or majority control of a fund management company or a wealth management company, we are actively looking into the opportunity to gain controlling shareholding in either an FMC or WMC, as such an opportunity would allow us to participate in the onshore China asset management market much more comprehensively in both the institutional and retail segments.

In conclusion, as I said at the start of my section, I firmly believe in the future growth trajectory of Value Partners. I would also like to take this opportunity to thank all our colleagues, our business partners and shareholders for their support throughout the year. There is no doubt in my mind that Value Partners is well positioned to embrace new opportunities ahead and we are committed to building one of the leading asset management franchises in Asia. Thank you very much.

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Steffanie Yuen: Thank you, June. And that concludes our prepared remarks. We will now open up for questions. Operator, please proceed to the Q&A session. Thank you.