



# CHINA'S TECHNOLOGY ASCENDANCY AND OTHER CFA CONFERENCE INSIGHTS

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## ABOUT THE AUTHOR

Hywel is responsible for the investment performance delivered by Old Mutual Investment Group's listed asset management cluster. He has worked at leading global institutional and private client asset management companies across the globe. His experience spans 25 years in asset management in Europe and the Middle East.

## VICTORIA HARBOUR VIEWED FROM HONG KONG ISLAND, 1956



Sources: [www.mardep.gov.hk](http://www.mardep.gov.hk)

This year's Chartered Financial Analyst (CFA) Conference took place in Hong Kong, and enjoyed a strong Asian, Chinese and technology flavour. For those not familiar with it, the CFA Conference is the annual get-together for CFA charterholders, asset managers and asset owners.

Given its location in Hong Kong this year, what was immediately and abundantly clear is the vibrancy of Hong Kong and its transition to a Chinese satellite, or trading hub, since the handover from British control in 1997.

Today, Hong Kong is dominated by China, with a profound capitalist, entrepreneurial bent – one nation, one system. While China remains a one-party communist state, the entrepreneurial zeal on the mainland has now clearly mirrored, perhaps even eclipsed, that of Hong Kong.

## KEY TAKEOUTS

- CHINA WILL "EAT THEIR US COMPETITORS FOR BREAKFAST"
- CONFERENCE THEMES INCLUDED FEE PRESSURES, THE RISE OF PASSIVE INVESTING, ESG AND AI
- DANIEL KAHNEMAN: AVOIDING LOSSES OUTWEIGHS ACQUIRING GAINS

**VICTORIA HARBOUR VIEWED**  
FROM HONG KONG ISLAND, 2017



## FINISH LINE IN SIGHT FOR THE US-CHINA TECHNOLOGY RACE

It was also interesting to ponder the comparison between technological innovation in China and that in Silicon Valley. It has been recently argued that China has now overtaken the US in tech innovation and, in particular, consumer platform-based models, like Tencent and Alibaba. If it has not already happened, it will, in my view, do so very soon.

The question is why? As always, it can be helpful to try to join the dots in a different way. In China there is a very strong culture around education and school children in China and, indeed, Hong Kong often study for 12 hours a day, six days a week, and are tutored extensively. This culture has been accentuated by the infamous one-child policy in China (now finally revoked) that has been in place for over 35 years. Parents have one child on whom all hinges, including their own wellbeing in retirement, as there is still no comprehensive social safety net in China.

You thus have all the ingredients necessary for super-fast technological innovation:

- Very well educated millennials hungry (desperate) for success;
- A deeply ingrained culture of innovation and entrepreneurship;
- Support from the state, keen to regain global supremacy;
- Millennials whose use of smartphones makes US consumers look lax;
- An enormous homogeneous, domestic population;
- Commensurately enormous amounts of data, with swift feedback loops.

According to a major venture capital player previously based in Silicon Valley and now operating from Beijing, "Chinese tech entrepreneurs are more competitive, smarter and more ruthless than those in America. They will eat their US competitors for breakfast."

The 20th century saw the rise of America; the 21st will be for China.

## TOP ASSET MANAGEMENT THEMES

As for our industry, the key themes that emerged at the conference revolved around the following:

1. The importance of partnership and client/portfolio manager conversations based on sustainable value-added solutions;

2. More pressure on fees;
3. The key role of passive investments in the mix;
4. The critical need for asset managers to be transparent about fees and performance and their impact on fund outcomes if they are to build trust with clients;
5. The importance of ESG, sustainable investments and the measurement of impact investing;
6. The transformative power of artificial intelligence (AI) at the client/fund manager interface and in money management itself;
7. The exponential impact of blockchain on all aspects of our industry (think smartphone equals blockchain, the apps are coming...).

## THE LONG AND SHORT OF FINANCIAL MARKETS

There were two notable presentations. The first was by Steve Eisman, one of the hedge fund managers featured in Michael Lewis's book *The Big Short*, for having foreseen the sub-prime mortgage bubble that led to the Global Financial Crisis (as an aside, he used to report to me when I worked at Morgan Stanley and we owned a stake in Frontpoint, his hedge fund firm). His thoughts, in essence, were:

- Quantitative Easing (QE) is monetary policy for rich people.
- Bankers mistook leverage for genius.
- There's no need to be worried about syndication right now.
- There's no equity bubble.
- Incentives trump ethics every time.
- Greenspan was the worst US central banker ever.
- Citibank leverage has shifted from 35:1 to 10:1 now. European banks are still 1.5 - 2.0 times more leveraged than the US, which is a problem.

The second was a presentation by Daniel Kahneman, Nobel Prize Winner and author of *Thinking Fast and Slow*. His thoughts:

### ON SELF-AWARENESS

- Expert intuition comes from experience based on immediate feedback in an ordered environment. Does this apply to financial markets? Most likely not, so intuition about markets is an illusion. Self-confidence in intuition in financial markets is therefore dangerous.
- Expert intuition does, however, work in chess, or surgery, for instance, because these are ordered environments with clear rules and good feedback.
- Be careful discerning where one really has expertise.

## ON LOSS AVERSION AND FRAMING

- Losses are given twice as much weight as gains in any personal risk assessment, which translates into loss aversion. Kahneman says this is the most important finding of his career.
- Framing. Any decision is framed within a broad framework and over time. Thus context is key, as is time.
- Loss aversion is exaggerated where there is narrow framing.
- People are overly optimistic and also risk averse. These biases work against each other.
- Optimism is the engine of capitalism. If people really knew the odds of success, they would never start a business.

## IN SUMMARY

It is always useful to check in with global trends and the CFA Conference offers a good opportunity to do so. There were also 200 delegates from South Africa in attendance, many of them our clients and it proved a wonderful platform to spend quality time with many of our key partners in the industry. Whilst the asset management industry globally faces profound challenges around fee pressure and the rise of passive investing, I suspect technological innovation may work in our favour and allow transformative efficiencies to help underpin our operating margin, as positive markets continue to bolster our top line. ■

## MEASURING UP TO GLOBAL ETHICS STANDARDS



Andrew Canter, Futuregrowth Chief Investment Officer, was recognised at this year's CFA Conference in Hong Kong as one of only six CFA® charterholders globally to represent the Institute's "Let's Measure Up" campaign for their contribution to upholding the Institute's exacting standards of ethical and professional conduct.

The campaign aims to ensure that the 149 000 CFA charterholders in 165 countries and regions show their investors, their firms and society that they always put investors' needs above their own and are committed to building trust in the industry.

"To be recognised in this way by one's esteemed industry peers is an incredible honour and a high point in my career," said Andrew, "and I believe this recognition is for all the work done by the Futuregrowth team, and an acknowledgment of our fiduciary, purpose-driven culture."

To find out more about how Futuregrowth raised the bar on governance and transparency go to [www.letsmeasureup.org/raising-the-bar-on-transparency/](http://www.letsmeasureup.org/raising-the-bar-on-transparency/).