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Canadian neobank jumps into investing with alternative assets focus

Article

The news: **Neo Financial**, a Canada-based challenger bank, **is** entering **the wealth management space** with an offering that will **let ordinary investors access alternative assets**.

At a glance: The product, **Neo Invest**, includes four alternative asset classes: **cryptos, hedge fund-style strategies, infrastructure,** and **real estate**.

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- It’s underpinned by **OneVest**, a registered portfolio manager in all Canadian provinces and territories. However, the offering **isn’t available in Quebec and doesn’t have a French language version**.
- It offers the human touch of professional money managers actively managing portfolios. Neo said its product is “the first fully digital, actively managed investment experience” for Canadians.
- Neo Invest has an assets under management (AUM) fee of 0.75%, and some portfolio assets may have fees, called management expense ratios (MERs). It says that the weighted average MER across a portfolio is 0.40% to 0.50%
- It offers automatic investing through direct deposit and scheduling.
- It also lets customers customize their portfolios.

The challenger notes that alternative assets are not accessible to ordinary Canadians, as wealth management companies and banks often have net worth requirements of over CAD$1 million ($797,606.54).

- In contrast, Neo has a minimum of just CAD$1 ($0.80) to start.
- Co-founder and CEO Andrew Chau noted that average Canadian retail investors have historically had to choose between robo-advisors “**offering basic products that only match the market and its volatility**” and “**antiquated big bank products**” like **high-fee mutual funds**.

The bigger picture: Earlier this week, the challenger said it has revamped its bank account, **Neo Money**.

- It claims that its interest rate of 1.30% **is as much as 130x higher than what Canada’s Big 5 banks provide**, based on its internal research and samples of public data collected in May 2021.
- The account, powered by **Concentra Bank**, mixes savings and checking.

Why this could succeed: The inclusion of alternative assets, coupled with human portfolio management, could help Neo gain traction with investors. The launch is timely, per a 2021 EY study that found that **a sizable portion of Canadian investors are up for grabs.**

- **One in five intend to change their wealth management firms** over the coming three years.

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- Reasons this group gave include 26% citing investment performance, 26% citing the pandemic, and 15% citing diversification.
- The study's finding that about 40% of the survey sample worried about hidden costs gives Neo a chance to make inroads through fee transparency.
- EY projects that Canadians will be exposed to more investment products—rising from 4.1 on average to 5.5 in 2024. This gives Neo an opening to tout alternative assets.

To realize its full potential, Neo Invest will also need to expand to Quebec—Canada's second-biggest province by population—and include a French-language version.

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