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A new twist on discretionary portfolios

In striving to create a 'stickier' engagement with clients, the wealth management industry in Asian still needs to find better ways to increase take-up of discretionary portfolio management.

Panel speakers

- ***Jean-Louis Nakamura**, Chief Investment Officer - Asia, Lombard Odier*
- ***Tuan Huynh**, Chief Investment Officer and Head of DPM, Asia Pacific, Deutsche Bank*
- ***Aman Dhingra**, Head of Advisory, Singapore, UBP*
- ***Simon Ip**, Head of Singapore, Markets and Investment Solutions, Indosuez Wealth Management*
- ***Hrishikesh Unni**, Executive Director, Taurus Family Office*

Relatively limited real progress seems to have been made in Asia in increasing the amount of client assets in DPM.

While some of the more experienced bankers have a 'sticky' engagement with clients, most continue to focus on selling the next product, so don't gain much traction.

Banker turnover is also a hindrance. Further, it has increasingly become the case that the 'replacement' banker may not be as senior as the previous one; many clients can feel negatively affected by this.

But growing share of DPM is still very much a focus for the majority of players. And some private banks have done better than others and are known for their focus on DPM. The key is to persevere but by adapting the offering and educating bankers and clients accordingly.

These were among some of the most important conclusions of speakers at the annual flagship Hubbis Investment Solutions Forum in Singapore in June.

OVERCOMING BIASES

A big part of the reason that DPM continues to be much less practised in Asia than in Europe can be attributed to cultural biases.

However, the bulk of this gap is mainly the result of a market which is less mature, but will catch-up quickly in the coming years. This is due to the fact, say many practitior rationale, both on the demand and the supply sides.

In terms of demand, Asian investors progressively acknowledge the fact that succeeding in an operational

Jean-Louis Nakamura
Lombard Odier

business does not guarantee any success in financial investments. They also increasingly realise the value in 'letting go'.

At the same time, to be convincing, a DPM offering should not be limited to good past performances. It has to lie in a concept fully consistent with the discipline and the emotion-free process on which DPM is supposed to differentiate away from advisory or trading activity.

Tuan Huynh
Deutsche Bank

CAPTURING THE POTENTIAL

In general, practitioners remain optimistic about the potential for DPM – with expectations overall that growth will continue but will be slow.

Ultimately, it works if banks and their advisers take a whole portfolio approach, rather than a product-sales one.

To date, many clients observe that a lot of banks tend to push their own products, even if there is a good argument to be made for creating a 'core' portfolio for the long term. Often times, clients have also observed that the product comes first, then it is retrofitted into a strategy.

59%
Poll respondents who said the level of engagement by their clients in DPM is between 0% to 10% – with only 28% opting for 10% to 20%, and a small number saying it is over 20%

When bankers take a whole portfolio approach to investments, however, they are successful with clients. The client has to be educated on the core/satellite approach, or at least have a portion of the portfolio in something that will perform steadily and is held for the long term.

At the same time, returns on DPM portfolios have to be relatively decent – and consistent – plus it should protect capital on downturns.

Making fees more competitive will also help position offerings for the more price-sensitive clients.

By doing this, banks must be able to make clear to clients the differentiating factors or competitive edge of their discretionary offerings. They need to help clients understand what makes a certain bank's discretionary offering better than another banks offering.

Aman Dhingra
UBP

Another way to accelerate DPM growth, believe practitioners, is to adapt, where possible, the content of mandates and portfolios.

For example, the traditional way to invest via MSCI World market cap-weighted balanced / growth / dynamic portfolios is probably out.

Instead, the industry needs more products that can complement the client's total wealth, such as to achieve non-correlation or income generation.

Simon Ip
Indosuez Wealth Management

Also important in the education process is helping clients to understand why DPM is good and relevant for them, instead of focusing on what it is and how it works.

75%
Poll respondents who said DPM should be done in-house, not outsourced – yet they also believe that bankers, not clients, need the most education to boost DPM in Asia

Making more use of digital tools is another way to help move the needle in favour of DPM, say practitioners.

More specifically, digital can be used to design, build, monitor and track, and rebalance portfolios. For example, it will be useful for clients to see their portfolios on their mobile phone. Or, more generally, institutions can get more information to design a customised portfolio to clients' needs, and to have more meaningful conversations.

IN-HOUSE OR OUTSOURCED?

While some banks might work with third-party partners to deliver some or all of their DPM capabilities, other institutions do it on their own.

Indeed, three-quarters of respondents to a poll at the event said DPM should be done in-house, not outsourced.

Yet a big challenge to this is the fact that consensus among delegates and speakers was that bankers, not clients, need the most education to boost DPM in Asia. ■

Hrishikesh Unni
Taurus Family Office