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# ADCB Asset Management and the Art of Redirecting Client Portfolios to the New Realities Ahead

Szymon Idzikowski, Fund Manager at ADCB Asset Management in Abu Dhabi, is a deep-thinking investment expert who is highly attuned to the vicissitudes of the global financial markets, to longer-term evolutionary macro-economic and other trends, and who clearly enjoys thinking strategically about fundamental changes taking place, as well as short-term adaptations required as a result of unforeseen events, including the pandemic. Hubbis met up with him by video call recently to hear of how he has been positioning the funds he manages and how ADCB has been encouraging its clients to adapt their portfolios to the world around them. In terms of the big picture, he explains that investors the world over need to adjust their expectations, which he says remain largely excessively elevated in his view, and that will probably lead to big disappointments ahead. Accordingly, his thesis is that the mindsets must change and that investors must be adaptable and adept at preparing themselves for the lower return environment in the months and years ahead.

**"The days of** easy gains are gone," Szymon says, on opening the discussion. "This means a new reality as investors need to brace themselves for lower returns, with the very real potential for mean reversions of bond yields and equity gains. However, there are other structural changes taking place, such as the demographics of ageing, meaning the working population is shrinking, and the propensity and risk appetite towards investments is changing, especially as millennials approach investing differently from the older generations. Other key trends are de-globalisation and the rise of protectionism, both or together challenging free trade which can result in higher manufacturing costs and lower corporate profits. Additionally, we can see and foresee more moderate global growth, elevated debt levels and the prospect of normalisation of interest rates."

## Adapting to the new realities

He comments that there are ways to address these challenges. "We can assess matters on the basis of the new economy versus the old economy, in other words, disruptors compared with traditional companies, and at how some of the 'old' economy companies are adapting."

He also refers to a de-globalising world and the firm's 'Yellow Brick Road' report, which highlights how investors can position their portfolios to hedge the de-globalisation risk. "This is not necessarily how our funds/models are positioned right now, but it is a thought-provoking report on how to think about this from a more structural and long-term point of view," he observes.

## Focusing clearly on client needs

Szymon has been in the investment industry for over 12 years, and in the Middle East since 2015. He is currently responsible on the one hand for sourcing external funds and external managers and generation of the ideas, as well as being responsible for running a range of multi-asset multi-manager solutions for the wealth management clients of the bank.

"I speak to many of our clients, and, of course, we start with needs and goals, and what we have found is that there is a real interest in engaging in discussions at this time, due to the unprecedented uncertainties out there," he reports. "What we have to do is focus their attention not only on the next three to six months but on their longer-term goals and how to position portfolios accordingly. Our base-case scenario would be that returns will come down over the next 10 years or so, meaning that our mission must be to help clients prepare for that, which is essentially a paradigm shift that has not yet been really filtering down. Of course, it will dramatically impact future goals, retirement plans and so forth, so people must, we believe, adapt early."

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## A changed and changing world

Szymon looks back to the 2008-9 global financial crisis as a turning point, resulting in the tsunami of QE and constant falling of interest rates ever since. The pandemic has wrought another fierce bout of both easing and rate-cutting from the world's leading central banks.

"Today," he reports, "we see that some 20% or more of the global aggregate bond indices are in negative yield and as to long-dated US Treasuries, the 10-year yield is ca. 80bps and the 30-year yield is ca. 1.6% (as of 30 Oct) Investors cannot therefore base decisions on historical norms, as those days are gone, there is no appreciation potential with rates so dramatically low, especially with the higher-quality names yielding little or nothing."

## Realigning expectations

He recalls that when he moved to the region in 2015, investors were seeking a 5% annual return from fixed income, and today they are still expecting the same. "They

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### Getting Personal

Szymon was born in Poland and later studied International Business in the city of Poznań at The University of Economics. He then went off to Scotland for a year in an exchange programme, thereby completing a second degree in Business Studies in Dundee.

Szymon enjoys spare time on the water in Abu Dhabi, kite-surfing when there is plenty of wind and wakeboarding and wakesurfing at other times. While Abu Dhabi had been on lockdown, Szymon spent his time in his condominium learning how to code. "The world is changing and disruption abounds," he observes, "so I thought it was the right time and opportunity to learn some new skills. Quantum coding is probably what I will need in my role a few years from now. In short, to some extent I have been trying to future proof my career."

have adjusted their perception of risk and quality to hunt for higher returns, but it is very simple, they really must also significantly adjust their perspectives on returns," he states.

As to equities, he adds, the past decade had, until 2020 arrived, seen returns flourish, so for example, the S&P 500 as the biggest component of global equity markets has returned on average nearly 14% a year since 2010, compared with a long-term average of 8% per annum, over the past century. "A reversal to that average would imply significantly lower returns for the 2020s, compared to those we have seen in the 2010s," he adds.

## Risks and rewards

Szymon's thesis is that instead of sacrificing quality and layering on risk in the quest for returns, investors should consider sacrificing liquidity and delving further into private equity and private debt, where he still sees some value, especially for the wealthier segments of clients. "For retail clients" he adds "liquid alternatives could be an option. We use them in our in-house managed multi-asset funds. And of course, portfolios need to adjust more towards new economy stocks that offer growth potential, towards old economy stocks that are adjusting to the new world and away from traditional stocks that might struggle in the years ahead."

Moreover, Szymon argues that it is counter-productive to wholeheartedly take on more risk in the hunt for returns. "With global growth slow and slowing, safe-haven assets are more essential than ever before," he states. "But at the same time, as lives are longer and retirements longer, investors do need to have equities, and therefore risk, in their allocations, but carefully chosen and monitored. Moreover, as societies age, that should create opportunities for healthcare companies and other sectors that will see rising structural demand over the decades ahead."

## Core and satellite

As a result of these views, Szymon is advocating more multi-asset solutions that he says are very popular in western countries, as well as encouraging thinking more in terms of core and satellite approaches, with thematic products or alternative products included to provide a growth boost as satellite investments.

He also comments on ESG, which he says while not big in the region, is an evolutionary trend that cannot be ignored by any serious investor. "We see that surveys show some two-thirds of millennials consider investments as a way to express their social, political and environmental values, while only about one-third of the baby boomers felt so."

## Trending towards sustainability

He explains that a Morgan Stanley study also pointed at higher interest amongst millennials in sustainable investing, with 84% of the respondents saying that they are interested. Additionally, some 90% of the millennials want to grow their allocations towards responsible investments over the next five years. Against this backdrop, he notes that Accenture estimates that roughly USD30 trillion of wealth will be transferred from the baby boomers to 90 million millennials over the next few decades.

## Key Priorities

"My first mission is to ensure that we stay entirely relevant to our client base," Szymon reports. "We want to be guiding clients in their thinking, evolving ideas and strategies that work for them."

He adds that this year, the firm has been moving away from the mutual fund sales-driven mentality and approach so endemic to the private banks in the region, to make sure that ADCB is not driven by the wrong incentives internally, but is more focused on developing AUM.

"We want to make sure we are firmly aligned with our clients' needs and hopes," he explains, "so since around January, we have been changing our approach, no longer charging subscription fees for funds, but instead a small platform fee and then guiding the clients through our open architecture to build their investments in the right way and with a firm eye on the key trends ahead, so we describe all this more as guided architecture."

The third priority has been to guide clients towards more use of ETFs to balance off better between active and passive strategies. "We are not against active strategies, not at all," he explains, "but here there is such a skew towards active that we believe a more balanced approach is better in today's markets, and therefore that passive funds should play a much more prominent role in client portfolios. We use them ourselves quite heavily in our in-house managed products, and we made them very prominent in the guided architecture solution we launched this year."

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## The knowledge-based investor

He closes the discussion by focusing on another priority, which is around the education of the clients. "Of course, this is central to everything we have discussed today," he says, "but I do really want to reiterate that as an industry here in the Middle East, the one thing that we all collectively should do more of is promote more education on markets, economies, products, asset allocation and all these areas. The future is very positive in this region, the population is young, wealth and economies have been growing, at least until this year, and there is a growing inclination towards financial planning, wealth planning, legacy and succession planning and amidst all these trends our wealth industry should truly flourish." ■