

Aiming for a discretionary boost in Asia

There is an increasing focus within Deutsche Bank Wealth Management on boosting annuity revenues, says Tuan Huynh.

Boosting discretionary portfolio management (DPM) revenue is one of the key priorities for Deutsche Bank Wealth Management in Asia this year, according to chief investment officer and head of DPM for Asia Pacific, Tuan Huynh.

“Boosting DPM is a slow process, but there is a greater focus within the bank to increase annuity revenues not just from DPM but also from other annuity products such as mutual funds,” he explains.

“This is likely to be achieved through a variety of ways including launching new products, how we position ourselves within the bank and the client segments we target,” he adds.

The senior management team now believes the key to boosting DPM in the region is to target HNW clients. “HNW clients, with assets ranging between USD5 million and USD25 million, are whom we are targeting for higher pen-

etration,” says Huynh. The global private bank believes that wealthier clients, such as the UHNW segment, are less likely to buy into the idea of DPM as they might and often invest directly with asset managers or use their own asset managers to access opportunities.

Going for the HNW segment is, of course, just one of different strategies that private banks in the region are engaging in to enhance their assets under discretionary mandates.

CHALLENGING DPM MARKET

Advisory and discretionary mandates have been a tough sell for private banks in the region, given that most Asian wealthy clients, who are for the most part first-generation and self-made entrepreneurs, like to retain control over their investment decisions and use private banks primarily for the execution of transactions. There is still a fair amount of resistance to paying for advice, although in keeping with global



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trends and regulations, it will be a matter of time before the advisory and discretionary model becomes more prevalent in Asia.

Almost every private bank is trying to boost discretionary mandates, although by most accounts, assets under DPM account for less than 10% of total AUM for the industry (there are a few exceptions to this rule).

Education remains key, as many rich families and individuals remain unaware of the benefits of professional investment management or even mutual fund investing. Most rich clients continue to invest by buying single stock/bond ideas.

NEW STRATEGIES

In terms of launching new products to promote DPM services, Deutsche Bank is planning to launch a fixed income product in the near future. "It's a strategy that has already existed for several years, but could be wrapped in a fund format for the ease of access for HNW clients," says Huynh.

The strategy has already existed for fixed income mandates worth USD3 million to USD5 million.

"However, HNW clients might not want to put that much money into one strategy alone, even though they like the track record," he says. "It's also different to buying a mutual fund because they know who the manager will be and there will be full transparency because it will be a managed product. "

SINGLE-STOCK IDEAS DOMINATE

Nevertheless, the job of convincing clients of superior performance through actively and professionally-managed portfolios has become even tougher in the current low-growth, low-interest rate environment.

There's little doubt that passive products have been giving active

funds a run for their money in the past few years.

"Active managers have certainly had a tough time over the past few years," says Huynh. "What we have seen with professional managers is that they have shifted into passive products for mainstream markets such as Europe and the US, while choosing active for specific, niche themes and emerging markets."

The astounding rise in passives has also placed pressure on fees and performance of active funds, at a time when private banks, a key distribution partner, are undergoing a bout of consolidation, both globally and in Asia.

While the ascent of passive seems to be a general industry trend, Huynh says the story isn't necessarily the same for clients on the advisory side. "Here, clients are still looking at investment ideas in the form of single stocks or bonds."

Indeed, other market experts have also pointed out that clients sophisticated enough to opt for discretionary mandates typically have a higher risk appetite and seek managers who have similar risk taking ability. They are also more comfortable taking a longer-term view relative to the typical transaction-oriented wealth client.

In all cases, it's best to be diversified. In general, 2017 could prove to be a year where portfolios may benefit from a degree of tailored risk engineering intended to provide protection against volatility so as to ensure smoother portfolio returns irrespective of market behaviour, according to Deutsche Bank. There may also be scope for investment approaches addressing specific market scenarios and risks. ■

Time to book profit in equities

In terms of asset classes, the Deutsche Bank's wealth management unit has been more constructive on equities, but after the run-up in the first two months of this year, it is recommending clients to book some profit.

"US stocks have run up strongly, so we are currently neutral but remain positive about the long term.

Trump's proposals to spend on infrastructure and cut taxes are seen as positive for financial markets," says Huynh.

"Fears about the US imposing anti-trade policies against China also seem to be fading, so sentiment towards Asia is improving," he adds.

ASEAN growth in the last quarter of the year continued to be underpinned by domestic consumption although growth slowed slightly in the larger ASEAN economies.

Going forward, two trends may continue to benefit ASEAN. First, commodity price base effects favour the commodity-exporting Indonesia and Malaysia economies, even if oil prices remain stable near-term.

This price effect (oil prices are up 50% yoy currently) however, may taper by the end of the year.

Secondly, improving manufacturing growth momentum is likely to help some economies – in particular, Singapore and Thailand.