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hubbis Janus Henderson INVESTORS

ASIA PRIVATE WEALTH MARKET INVESTMENT SENTIMENT SURVEY

OUTLOOK 2H 2023

GAUGING CURRENT PRIVATE CLIENT ATTITUDES IN ASIA

Hubbis has chosen this moment to partner with Janus Henderson Investors for a Survey to take stock of the perspectives of key investment gatekeepers in Asia's private wealth management community, spanning Private Banks, Retail Banks, IFAs, Independent Asset Management firms, External Asset Managers, Multi-Family Offices, and Single-Family Offices.

Our aim was to gauge how private clients in the region are looking at their investment portfolios, how their investment outlook might be evolving, and what they hope to achieve in the next six to 12 months and beyond.

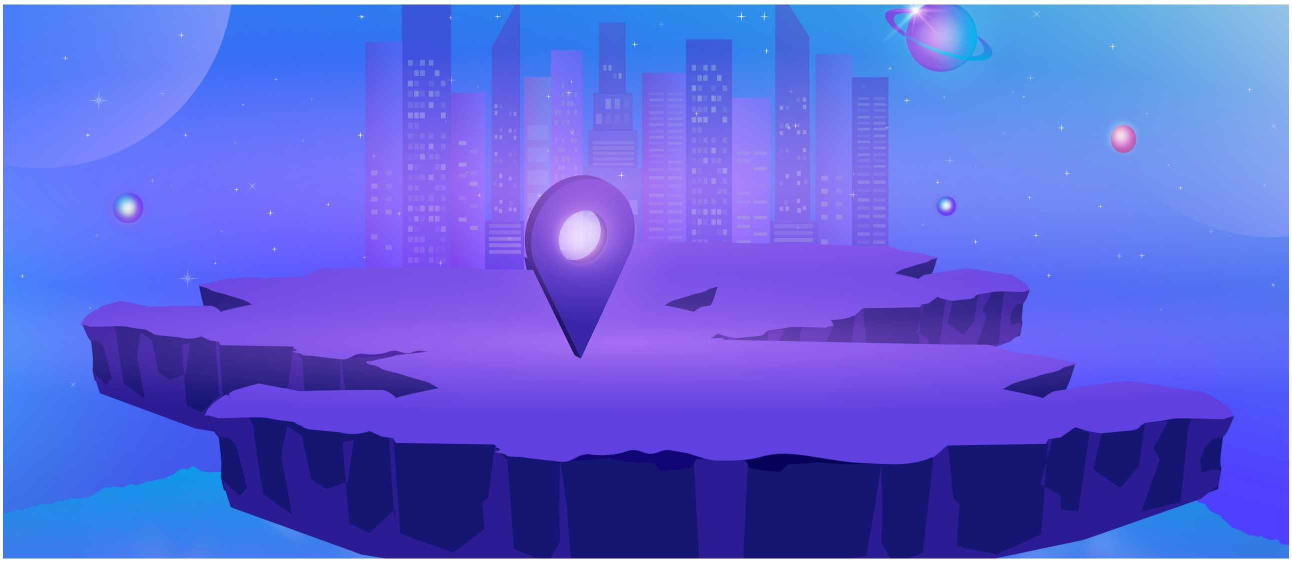
The mission for this Survey is therefore quite straightforward – it was designed as a barometer of fears, hopes, and likely future intentions amongst Asia's private clients in order to understand more about how their portfolio formation is evolving against the backdrop of global and regional events and markets.

We hope you enjoy the output.

THE KEY FINDINGS, INSIGHTS & OBSERVATIONS

At a Glance – A Snapshot of the Key Insights & Observations

- 60% of private clients in Asia are currently either defensive or cautious, according to their wealth managers, while 32% will accept a modicum of risk in the hope of somewhat elevated returns, and only 8% are currently adventurous and willing to absorb higher risk.
- 96% of private clients appear either very worried about inflation [in the leading global economies] in the year ahead and a mere 4% are said to be not worried at all.
- 96% of clients are also very or somewhat worried about the performance of the major world markets in the upcoming 6 to 12 months.
- 71% of wealthy private investors in Asia want more diversification options and access to interesting products and ideas, in order to stay invested.
- Asia's private clients are increasingly inclined towards somewhat more defensive and diversified portfolios with a robust balance of global exposures across both private and public market assets, including alternatives such as hedge funds, gold and commodities.
- The jury is roughly split as to whether the traditional 60/40 asset allocation model is back in favour, or whether it should be.
- Only 12% of replies stated that ESG is very important to their clients in Asia, but on a more encouraging note for those beating the ESG drum, 64% indicated this is moderately but increasingly important to their clients.
- Key investment segments include technology/data/communications, healthcare, alternative energy, climate change exposures, and Artificial Intelligence, followed by commodities (especially gold and oil) and emerging markets.
- Cryptocurrencies and real estate are of very minimal, or negligible, interest at this time.



WHAT ARE YOU OR YOUR PRIVATE CLIENT INVESTORS MOST FEARFUL OF, OR POSITIVE ABOUT FOR THE REMAINDER OF 2023?

There were many emphatic replies that focused on the fear factors. All the respondents focused on inflation in the Western economies, high or rising interest rates, many zoomed in on the potential for a recession and possibly stagflation in the US, and plenty of replies highlighted geopolitical instabilities or surprises are cited as the main worries.

The geopolitical concerns centre largely on the war in Ukraine, and on US/China tensions, but there were others cited, including worries over Iran and North Korea, as well as social unrest in the developed economies, and climate change havoc, the latter largely in the emerging economies.

Additionally, respondents are concerned that the US market recovery had in H1 of 2023 gone too far and too fast and is unsustainable. Some pointed to the very large volume of money sitting on the sidelines in money markets as the potential catalysts for a longer-term underperformance of portfolios.

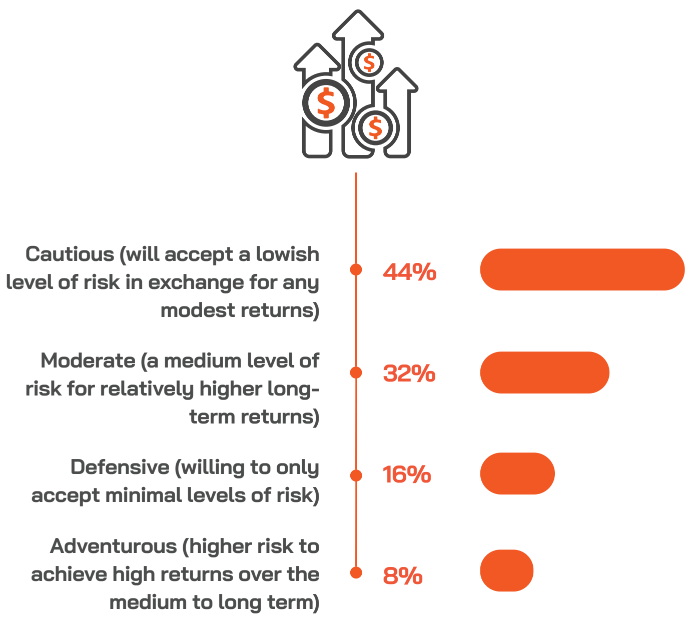
Others highlighted the possibility of financial sector weakness and a credit crunch, especially in the US, also linked to a possible slump in commercial real estate, all of which will hurt the US dollar as well.

There were not that many optimistic replies at all. Amongst those expressing hope for the second half of 2023, some respondents predicted the US would avoid recession, or at worst it would be mild and short-lived. Others see significant opportunities in emerging market equities, especially India, and more broadly they are more positive about Asia than any other region in the world, except perhaps for the Middle East.

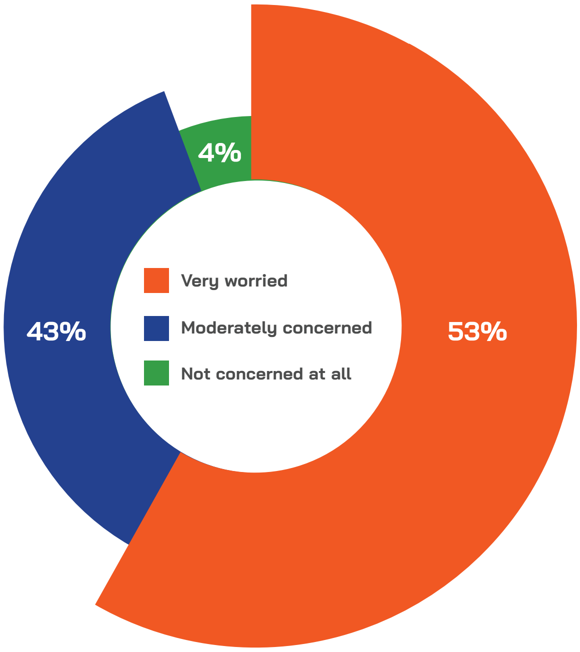
WHAT DO YOU THINK WILL BE THE MOST IMPORTANT FACTORS IN CURATING YOUR ADVICE AND IN YOUR CLIENTS' INVESTMENT DECISIONS IN THE SECOND HALF OF 2023 AND BEYOND?

Respondents focused largely on the need for visibility around the potential for a recession, how stubborn inflation will be, and the direction of interest rates. Others said they are watching the US dollar carefully. Some pointed to the continuing high valuations in many markets, and the need for a greater and more sustained correction, particularly until there is a genuine sign of resumed growth led by the US. Geopolitical worries and political instability in the leading economies are also key factors in decision-making, with a strong watching brief on both Russia and China. We see that ESG investing is not overly important in Asia, but that investors are paying more attention to it than before.

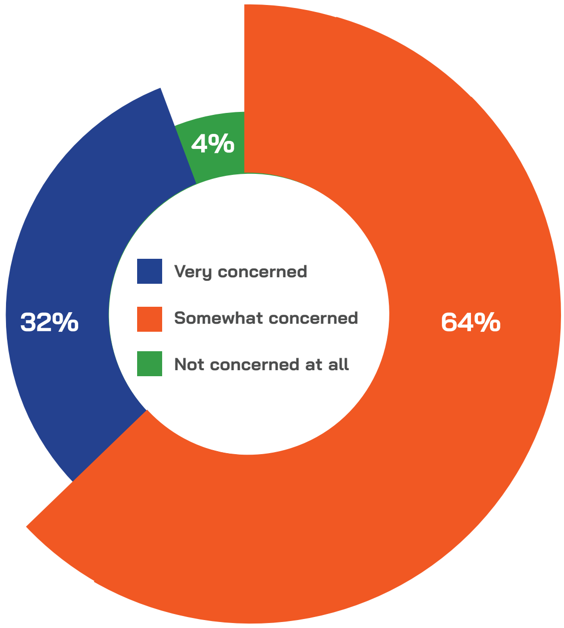
How would you describe clients' general appetite for risk?



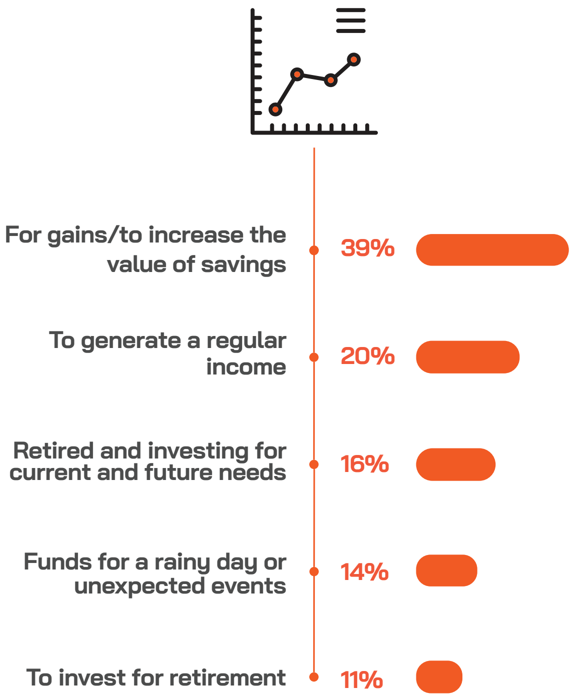
How concerned are your clients regarding inflation over the next 12 months?



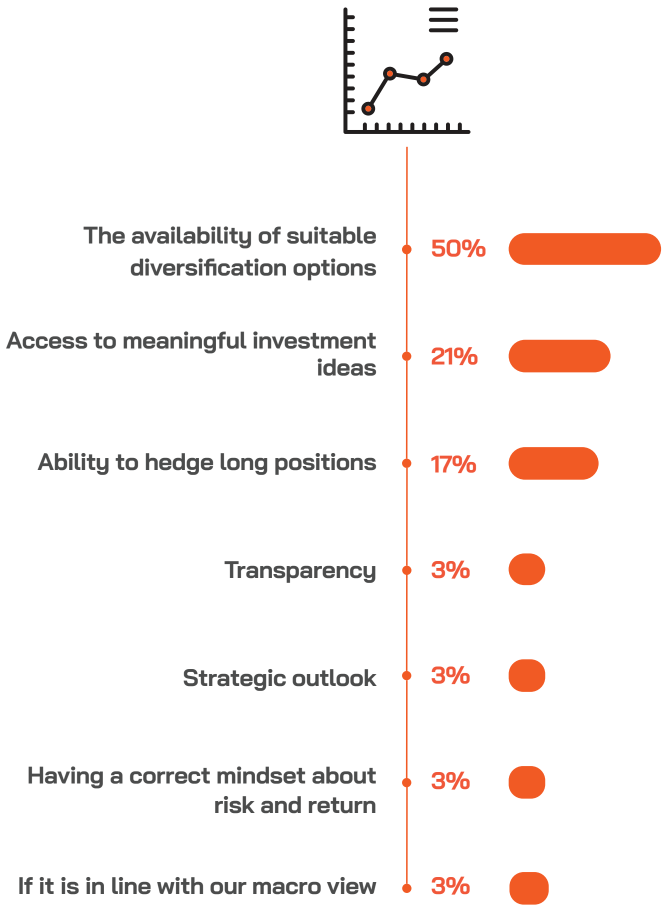
How concerned are your clients regarding the performance of the stock markets over the next 6-12 months?



What are the main reasons your clients invest?



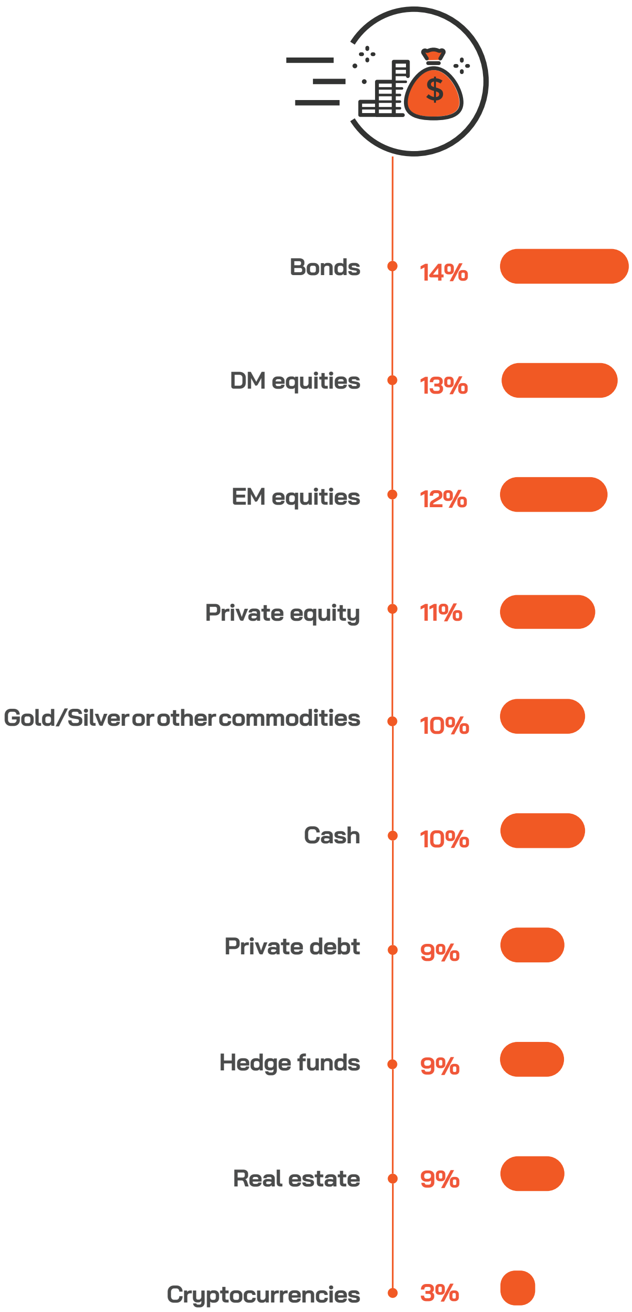
What considerations will make you and your clients more comfortable staying invested through the ongoing market volatility?



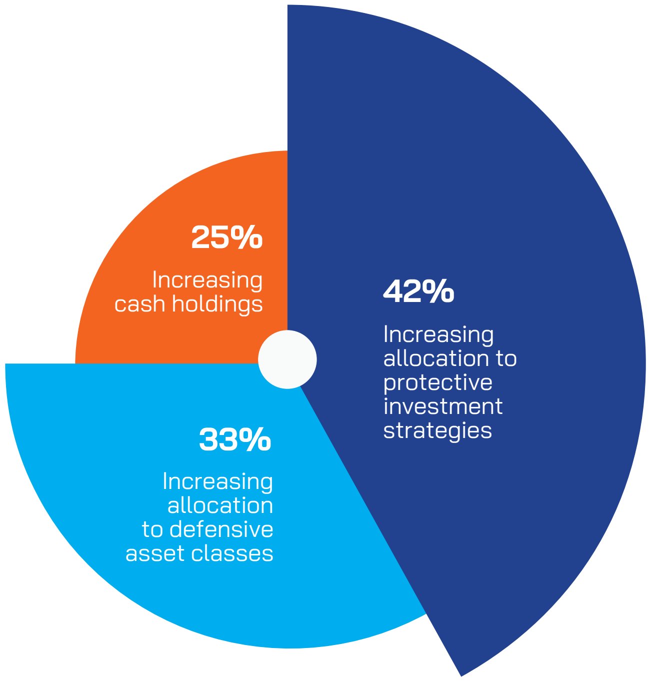
WHAT ASSET CLASSES WOULD YOU CONSIDER TO BE AMONG THE SAFER HAVENS IN THE CURRENT CLIMATE?

US Treasuries and investment-grade fixed income rank high on the list of preferred assets in the current climate, while money market instruments and deposits aredeemed appealing as they offer decent yields for the first time in many years.

What assets should go into the portfolio of the future?



How are you preparing your clients' portfolios for a potential global recession?



Fixed income exposures are skewed to the shorter end of the curve, but there is an expectation of a more normalised yield curve; hence there is a gradual move to extending duration, largely to IG paper of 7-10 years maturity. Some respondents like private credit markets but point to the stronger names with a longer track record rather than more speculative and higher-yielding paper.

Equities are also well represented, with emphasis on the strongest blue-chip names with robust, storm-proof balance sheets. Global diversification in portfolios focuses first on the US, then Asia, and then Europe. Meanwhile, private equity is still in demand but focused more on later-stage companies with a solid track record, while early-stage investments are less in favour due to the uncertainties over the possibility of recession, and a generally elevated risk environment already.

Alternatives in favour include hedge funds, a selection of structured product exposures, and gold is liked as a hedge against further inflation and also against potential (some argue likely) US dollar weakness.

IF YOU WERE CREATING A MEDIUM-RISK PORTFOLIO FROM SCRATCH TODAY FOR A PRIVATE CLIENT, WHAT WOULD IT LOOK LIKE?

According to the responses received from members of the private wealth management community regarding the relevance of the traditional 60/40 asset allocation model, the replies were fairly consistent.

Several typical allocations emerged from the survey. Firstly, some experts suggested an allocation that is underweight in equity and overweight in fixed income and cash. This approach prioritizes stability and liquidity.

A preferred allocation mentioned was a 50/50 split between different asset classes. Specifically, 30% was allocated to Investment Grade Fixed Income with a duration of 1-3 years, and 20% was allocated to High Yield bonds with a similar duration. The remaining 50% was allocated to global equities, with a breakdown of 20% in Global Technology, 20% in Global Quality, and 10% in Real Estate-related investments.

Another suggested allocation consisted of 30% in US and UK Investment Grade bonds, 30% in global equity, 30% in alternative investments, and 10% in USD deposits. This approach combines fixed income, equity, and alternative investments.

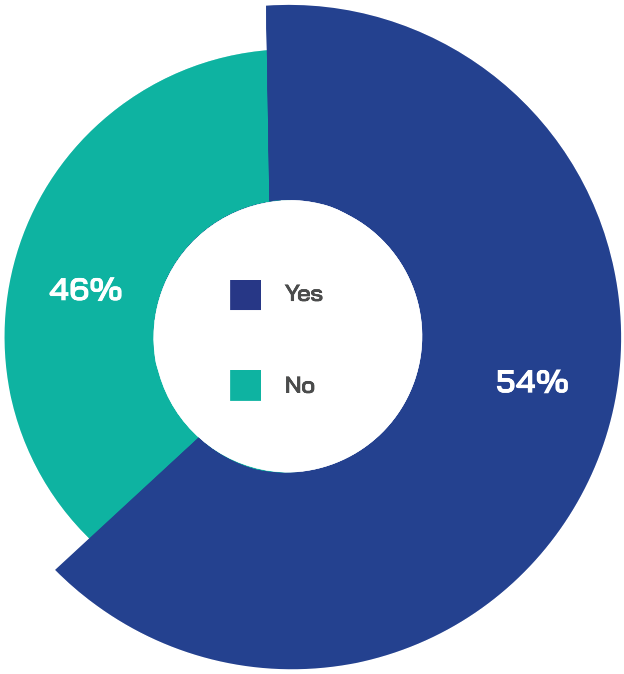
A balanced approach was proposed, with a 50/50 allocation between equities and fixed income. This strategy seeks to balance growth potential with stability.

A different allocation recommendation included 30% in equities, 30% in bonds, 20% in Private Equity, 10% in commodities, 5% in cash, and 5% in gold. This approach combines various asset classes to diversify the portfolio.

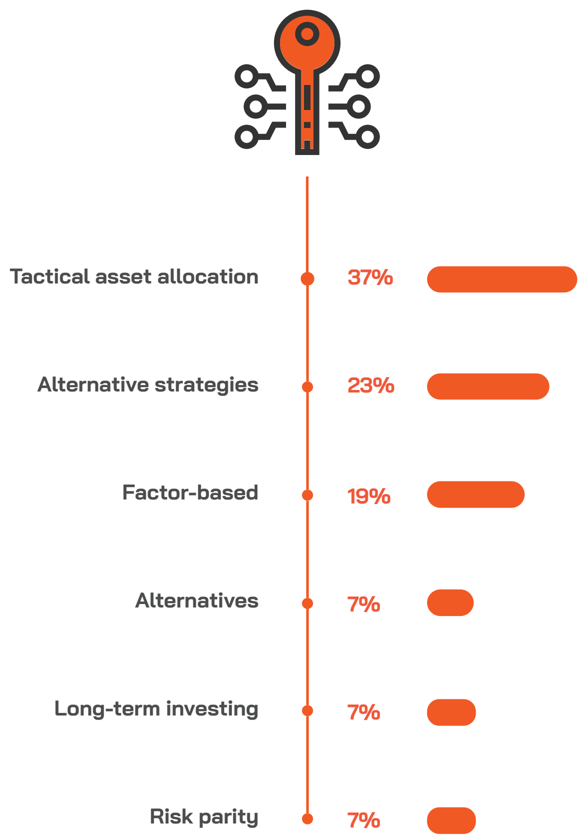
The traditional approach of combining investment grade bonds and dividend-yield equities was also suggested. This allocation comprised 20% in investment grade bonds, 30% in equities, 30% in other fixed income options, and 20% in real assets.

Another suggested allocation included 30% in equity, 20% in investment grade bonds, 15% in money market instruments, and 35% allocated to hedge funds, infrastructure, and commodities. This approach aims to diversify across multiple asset classes.

Is the traditional 60/40 asset allocation model still relevant today?



Which investment approach is preferable?



A different approach involved allocating 50% to investment grade bonds with longer durations, 40% to equities with a focus on the US market and growth stocks, and 10% to alternatives, with a 50/50 split between gold and commodities, led by oil.

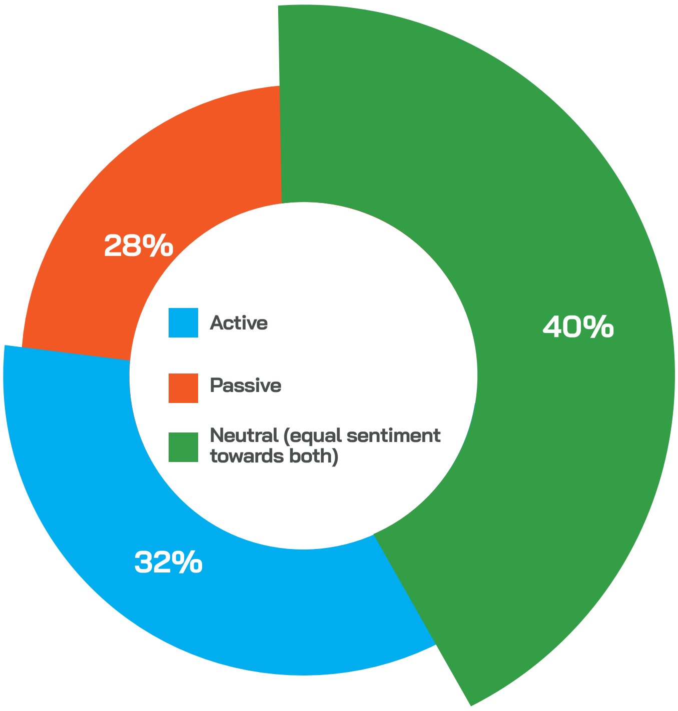
A balanced allocation was proposed, with 40% in short-term investment grade fixed income, 55% in global diversified equity, and 5% in higher-risk alternatives.

One response suggested allocating 25% to bonds, 25% to cash, and 50% to equities. This approach seeks a balance between stability and growth.

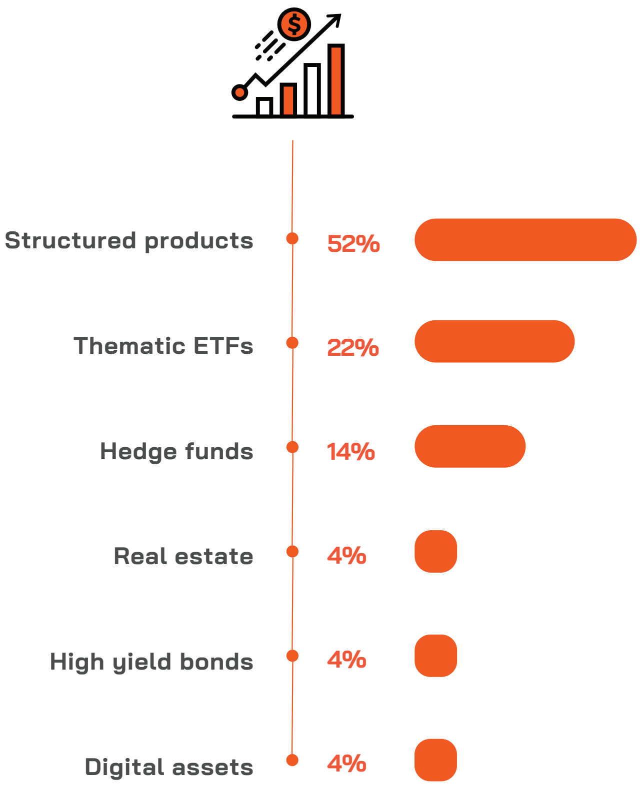
A commonly used allocation of 60% equity and 40% debt was mentioned, focusing on highly diversified investments with zero concentration. This strategy prioritizes quality income and quality stocks

Lastly, an allocation of 50% cash, 20% bonds, and 30% equity was suggested. This approach maintains liquidity through a significant cash position while generating income through bonds and potential growth through equities.

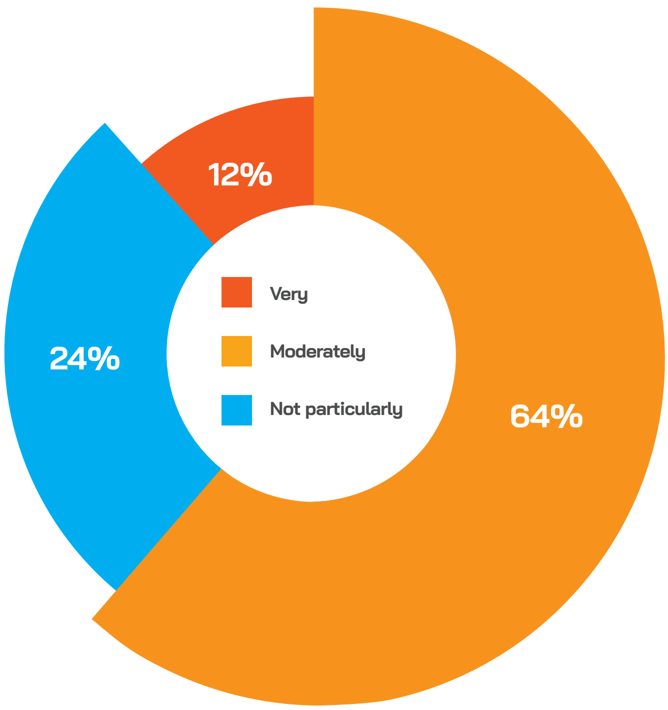
Do your clients prefer active or passive investment strategies in the current climate?



Which of the following products do you consider tactical (rather than strategic) in your portfolio construction?



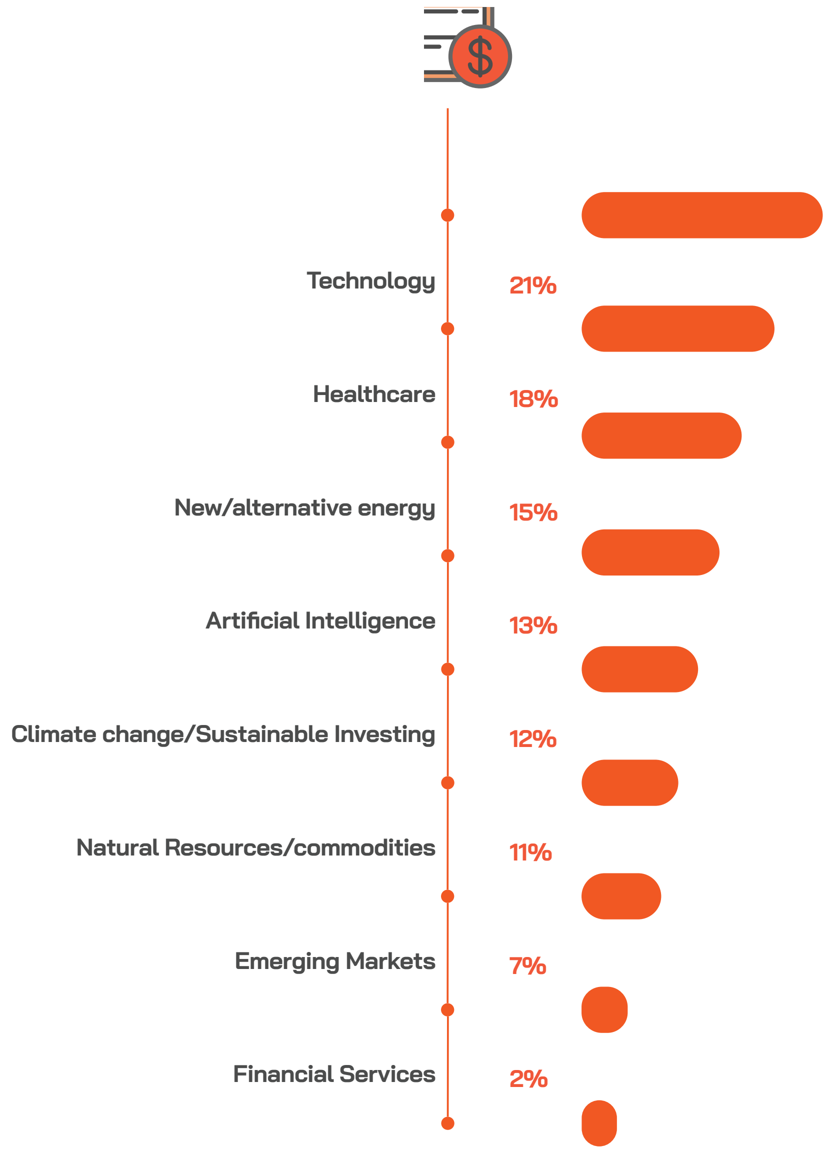
How important are ESG considerations when your clients are making investment decisions?



IN THE WORLD OF INVESTMENTS, WHICH AREAS OF INNOVATION WILL BECOME MORE PROMINENT IN THE NEXT FEW YEARS?

The survey responses revealed key areas of focus for potential investment opportunities. The respondents expressed interest in various sectors and themes:

Which investment sectors/themes do you think will throw up the most interesting opportunities?



Technology emerged as the most promising sector, with 21% of respondents considering it to offer the most interesting opportunities. This included advancements in AI, generative AI, 5G and 6G technologies, and automation.

Healthcare was recognized by 18% of respondents as a significant area for potential investment opportunities. This encompassed investments in biotechnology and addressing the healthcare needs of the ageing population.

New and alternative energy sources garnered attention from 15% of respondents, indicating potential investment prospects in renewable energy, clean technologies, and sustainable energy solutions.

Artificial Intelligence (AI) was regarded as a sector with compelling opportunities by 13% of respondents. This involved investments in AI-driven technologies, machine learning, and automation.

Climate change and sustainable investing captured the interest of 12% of respondents, reflecting potential investments aimed at combating climate change, supporting sustainable practices, and promoting environmental stewardship.

Natural resources and commodities were acknowledged by 11% of respondents, suggesting potential investment opportunities in metals, minerals, and agricultural commodities.

Emerging markets were seen as offering interesting prospects by 7% of respondents, indicating potential investments in developing economies with growth potential.

Financial services received recognition from 2% of respondents, indicating potential investment opportunities in banking, insurance, asset management, and related industries.

Real estate was identified by 1% of respondents as a sector with potential investment prospects, including residential, commercial, or industrial properties. ■