Building robust portfolios for Thai investors

Amid the current investment climate, wealth managers and advisers in the country say they need to encourage their clients to look beyond traditional asset classes, to embrace asset allocation and diversification with a view to more sustainable, long-term returns.

Any investment expert will agree that constructing robust portfolios that can survive challenging and uncertain market environments is crucial to making gains over the long term.

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In the current landscape, in particular, the need to build stable portfolios is even more pronounced as the global policy scenario changes and political risks escalate.

With global growth finally picking up steam, central banks have reached the point where they are contemplating if it's time to pull back on monetary stimulus. For example, the US recently hiked rates as part of a broader attempt to dial back its ultra-easy monetary policies amid improving economic growth. Yet there are reports that some form of stimulus cut-back might be forthcoming in Japan and the eurozone as well in the months ahead.

These were some of the key take-ways from a thought-leadership discussion co-hosted in Bangkok in late March with J O Hambro Capital Management – exclusively for senior product professionals at the leading banks, local asset managers and insurance companies in the country.

CHANGING TIMES

These trends suggest that after nearly a decade of living in a low-growth, low interest rate environment, investors may have to start adapting to higher interest rates.

The big risk here is that too rapid a rise in interest rates could unnerve markets. In Thailand, for instance, the challenge is even bigger, say domestic market experts, since there is a paucity of financial instruments in the local market that can help manage duration.

Meanwhile, the next growth cycle looks far from assured as several political risks loom on the horizon. In particular, the victory of far-right parties in crucial

elections in France and Germany, two of the eurozone's largest members, could add to anti-globalisation and anti-immigration concerns fuelled by Donald Trump's win in the US elections in November 2016.

Some Thai investment specialists have also pointed to high valuations in equities, which are running ahead of economic growth. They fear a correction could be coming soon. Given the various cross currents in the market, the need for diversifying investments therefore becomes all too evident.

Practitioners based in Thailand believe that HNW individuals in the country need to move beyond traditional products and consider other asset classes. In particular, there is a need to diversify away from fixed income (a favoured asset class) and for them consider higher allocations to risk assets such as equities.

In addition, local practitioners say investors should also consider allocating portions of their portfolios to specialist investment themes such as shifting demographics, technological disruption, etc, as well as alternatives and mutual funds. All of these comprise the building blocks to creating a more stable portfolio.

In more developed market client portfolios, mutual funds play a key role in diversification and asset allocation. However, in Thailand, as an example of a similar situation in many markets in Asia, this is not the case and fund penetration levels, even among private wealth clients, remain low.

BOOSTING MUTUAL FUND ACCESS

Efforts are ongoing to boost fund purchases in various regional markets, including in Thailand. The country's stock exchange, for example, has been trying to promote greater access to mutual funds in a bid to increase fund penetration and diversification.

In late 2016, the exchange together with the mutual fund industry teamed up to jointly develop 'FundConnext', a technology-enabled fund service platform to process the buying and selling of mutual fund orders, enabling investors to access mutual funds more efficiently.

The open architecture platform is designed to standardise mutual fund operations and reduce the operational burden among fund houses and selling agents. Over 43 participants have signed up to use the platform, which is set to be launched in the first half of 2017.

The new open platform promises to usher in unprecedented change in Thailand's asset management industry.

In short, it will make access to a wider variety of mutual funds much easier for investors and improve the range of investments available.

There have also been attempts by the stock exchange to promote ETFs, but, so far, passives have not made much of an impact in Thailand.

Many local investors, including HNW clients, pay relatively little attention to expense ratios when investing in a fund, mainly because of a lack of financial literacy. Yet expense ratios can have a huge impact on fund performance, research shows.

Over time, however, and with increased investment awareness and education, the expectation among market practitioners based onshore is that Thai investors will also become aware of the higher fees paid for active funds, leading them to be more open to ETFs.

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Besides, it is also becoming more difficult to find active fund managers who outperform consistently over time. This should all eventually persuade investors to give ETFs a second look, say experts based in the Thai market.

Moreover, as the concept of asset allocation becomes more widely accepted, including in Thailand (albeit a bit more slowly), investors will start to understand the concept of risk from a portfolio perspective, instead of on a single instrument basis.

In general, most HNW individuals want their portfolios to offer a steady stream of income while also being capable of capitalising on growth opportunities. Yet Thai investment specialists note that the allocations to risk assets by domestic investors are still not aggressive enough, even though the global economy is moving into growth mode. ■