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Link to Photos
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Capital markets & structured products: Current outlook for 2H 2018

Has the market for structured products changed? What capital markets products are on the radar? What strategies do experts recommend? The fourth panel discussion of the Hubbis Investment Solutions Forum surveyed the investment landscape.

These were the topics discussed:

- *After the mega structured products bonanza in 2017 - what can we expect in 2H 2018?*
- *Given where we are - what are some of the best ideas to discuss with clients?*
- *What strategies will enable Asian investors get higher returns, whilst been mindful of potential market challenges?*
- *Which assets do clients want? What's the best way to source and deliver on this?*
- *How can you optimise a client's existing portfolio - is this a priority?*
- *Any role for passive and index products?*
- *How can investors be creative in generating yield?*
- *How should clients now view their risk?*
- *What are the key drivers of excess return - sources of alpha - in each asset class? How can they help add to overall performance?*
- *How can HNW clients take advantage of rising volatility?*

PANEL SPEAKERS

- **Roger Meier**, Executive Director, Head of Structured Products Advisory, Asia, Bank Julius Baer
- **Nicolas Rigois,** Managing Director, Head of Wealth Market Product & Sales, Standard Chartered Bank
- **Chinmay Patil**, Executive Director, Investment Solutions, Leonteq Securities
- **Martin Goerojo,** Director, Capital Markets Investment Products - Wealth Management, Asia Pacific, Citi
- **Olivier Robine,** Manging Director, Head of Equity and Commodity-Asia, Commerzbank
- **Kong Hong Lee,** Executive Director, Investment Advisory, DBS Private Banking

A **PRIVATE BANKER BEGAN THE DISCUSSION BY** highlighting what an excellent Q1 the industry had and how the pace of business has slowed sharply in April. "Technology stocks, where a lot of high net worth (HNW) investors are invested, had fallen back, so we did not see much rollover, but things have picked up again in May and June with better markets in general."

He noted that in 2017 the core product was fixed coupon notes (FCN) and that remains the case today.

"We see some more accumulators now with the markets moving higher," he added, "and we have seen some principal protected trades as well earlier this year after markets have corrected somewhat, as well as credit linked notes."

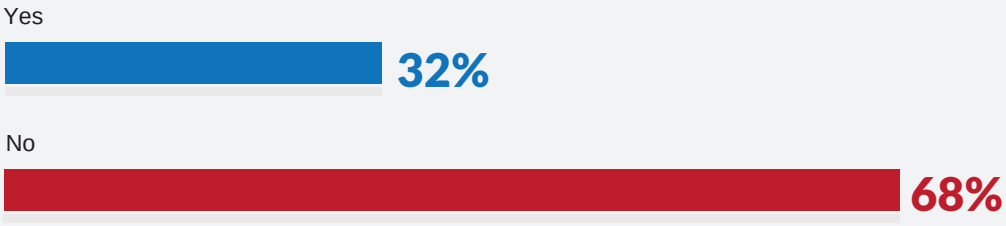
Sentiment now more cautious

Another banker agreed with that Q1 had been a very positive start to the year, with an evolution in the structured products space towards more range bound structures or principal protected structures. "But even though the sentiment is more cautious," he added, "people who used to do FCNs are still doing FCNs."

"I agree," said another banker, "we see a lot more interest in structures with downside protection and we have also been advocating floating rate structures

NICOLAS RIGOIS
Standard Chartered Bank

ARE YOU HAVING MORE CONVERSATIONS TODAY WITH CLIENTS ABOUT PRINCIPAL PROTECTED STRUCTURES?



Source: Hubbis Investment Solutions Forum 2018

and short tenure structures. As a rule of thumb our advice is to stay diversified, stay agile, go for high quality risk, as we are now in a somewhat more challenging investment landscape."

A banker representing a global universal bank noted that their private clients have a wide dispersion of risk appetite and sophistication. "The award-winning product for us is the one that does not lose money and gives some return to the clients. We use structured products to complement the other products and services we work on with the clients, so for example writing call options on the mutual funds we offer, where the principal protection overlay has achieved wonders. I feel the second half of the year will be still probably be positive for us, but we are approaching it with a bit more caution."

ROGER MEIER
Bank Julius Baer

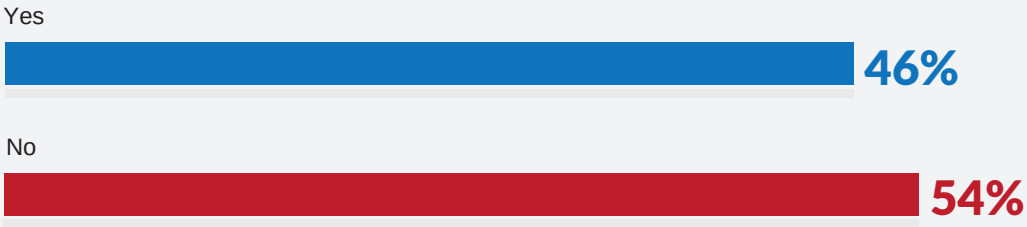
Less leverage, more classical products

Another banker noted that demand for leverage is lower in general, with clients tending more towards what he termed a very classical product. "This would be a bonus type of product where typically people are protected against some down side but will be open to risk if there would be a severe correction," he explained.

The discussion turned to platforms which one panellist noted had some limitations. "It will take some time before we are at a level where people are comfortable with the platforms and pretty much most of the flow can be executed on them," he said.

"For flow products it is all about price," noted another expert. "For non-flow it is all about ideas but

ARE YOUR CLIENTS UNWINDING LEVERAGE TODAY?



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MARTIN GOEROJO
Citi

if that is a good idea then it will rapidly migrate to become a flow product and then again it will all be about price."

"A key driving force behind the platforms is regulation," added another banker. "With MiFiD ii then pre and post trade transparency needs to be excellent and that means very rigorous processes around best execution."

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A panellist asked how clients can hope to achieve outperformance. "A fairly consistent view we hear is that clients do not have a view, they are unsure of the market direction," replied a banker. "If clients know which direction markets are heading, there are obviously a lot of structures available, but one of the structures that we are pushing right now is specifically designed for clients who think market will be range-bound."

Ideas for a range-bound world

He explained that the certificate redemption at maturity is linked to the performance of the stock or index on either side, no matter whether it goes up or down. "Obviously, nothing is free, so the caveat is that it should not move too far, so there are two barriers on each side," he elucidated.

"As long as those barriers are not breached during the life of the trade you get absolute performance of the product. A lot of our clients are really warming

KONG HONG LEE
DBS Private Banking

this idea and using this as sort of a portfolio hedge as well. It is done in 100% principal protected format which means that as long as there is no credit event happen with the issuer, you get your principal back."

Another banker noted that with 10-year Treasuries rising above 3%, fixed income is not the place to be. "There is a lot more value in equities these days," we believe, "but of course many clients that have been in fixed income for so many years find it difficult to turn away from that sector."

As to vehicles to access any of the market segments, ETFs are broadly considered an excellent passive approach. "But we like to see the use of ETFs as a balancing methodology alongside much more active investment approached," noted one panellist. That is our preferred strategy."

CHINMAY PATIL
Leonteq Securities

Giving RMs more wiggle room

Empowering RMs to have more power over product selection and pricing, as well as better access to research was another theme laid out by one senior banker from a global bank.

"Yes," said another banker, "we are trying to use technology to give RMs the tool that they can do many different things. For structured products specifically, we are building links between the manufacturers and us as a distributor so that RMs can go and do their own trades for three to six months, real simple stuff. In the fixed income space, we run about 2500 different bonds on the platform and we are distributing prices all the way through the RMs and through the system without manual intervention. But for sophisticated structured products that is not likely to happen via the platform in our view, as these are so complex."

The discussion closed with suggestions from the experts on investment ideas. One expert highlighted the low exposure of HNW investors to commodities, which have performed well in the past year. "We still see commodities having a good run ahead," he said. ■

OLIVIER ROBINE
Commerzbank