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Creating and selecting products most relevant for today's markets and outlook

In the final panel of a highly productive day, an eclectic group of experts assembled to cogitate on the state of the mainstream – and alternative – asset markets and to promote ideas for Asian HNW clients seeking to optimise their investment portfolios.

These were the topics discussed:

- *What funds / investment products have you got that are specifically relevant today to private banks and wealth managers?*
- *How can clients access China?*
- *How can clients access India?*
- *Active vs passive?*
- *What strategies will enable Asian investors get higher returns, whilst been mindful of potential market challenges in 2018?*
- *Where do you now turn to drive long-term returns for a portfolio?*
- *What is the increasing role of Physical Gold?*
- *What is your current thinking about the role of fixed income and credit in HNW / UHNW clients' portfolios?*
- *What are the prospects for US dollar interest rates in the coming 12 months? Is being small and flexible in fixed income critical at this point in the rate cycle?*
- *Can the higher yields available in particular asset classes insulate investors from rising official rates and still provide good returns?*
- *What are the available higher-yielding USD-denominated asset classes?*

PANEL SPEAKERS

- **Robert Hordon**, Senior Fund Manager, J O Hambro Capital Management
- **Tony Wong,** Head of Intermediary Sales, CSOP Asset Management
- **Dimitry Griko**, Chief Investment Officer – Fixed Income, EG Capital Advisors
- **Praveen Jagwani,** Chief Executive Officer, UTI International
- **Adrian Chee**, Managing Director, Head of Portfolio Management and Credit, Asia, Credit Suisse Asset Management
- **Heena Mayani**, Business Development Manager, Global Precious Metals

THIS FINAL DISCUSSION WAS, AS THE CHAIR FOR THE DISCUSSION SAID at the outset, somewhat as light relief after a day in which numerous concepts, trends, predictions had been heard by the audience at the Hubbis Asian Wealth Management Forum in Singapore.

hubbis

DIMITRY GRIKO
EG Capital Advisors

Having heard all that, the attention of the listeners was maintained with some noteworthy investment ideas for wealth experts to consider for their Asia-based clients.

Emerging market high yield

The discussion opened with a fascinating glance into the world of emerging market high yield debt. An expert explained that a well-constructed portfolio that is built following fundamental, bottom-up research can yield 6% roughly currently, with an average credit rating of BB-.

The performance of such a portfolio in recent years has been considerably stronger than the current running yield, and market proponents believe there is considerable upside remaining as investors around the globe improve their understanding of EM corporate debt.

For example, total EM corporate leverage is about 2.2 times compared with 3.3 for the US high yield market, default rates at just over 13% are in fact considerably lower than the US market at more than 24%, but recoveries are roughly the same.

The EM high yield market is roughly 40% of the total EM corporate debt market of roughly $2 trillion. The international buyers of EM corporate debt are mostly general bond funds, almost all of which are

"WE ARE MOST PROUD OF HAVING DEVELOPED AN OUTSTANDING GROUP OF PEOPLE AND A GENUINE CORPORATE CULTURE, WHICH TOGETHER DRIVE OUR BUSINESS FORWARD."

managed on a top-down basis, hence many have not fully appreciated the inherent value of EM corporate debt. The EM debt markets specialist explained that his firm has a large team of credit analysts and that their approach is entirely agnostic in relation to the bond indices benchmarks.

The portfolio is totally global, with Brazil as the large single country holding and with Turkey and Mexico as the next largest holdings. China, for example, might have a considerably larger weighting in the index than it does in the fund, largely because of doubts over the recoveries process. Sectoral weightings currently favour TMT and industrial sectors.

"We use a team-based decision-making model to avoid speculation," the expert noted. "We thereby make sure that everyone's expertise on the team is used to the fullest whether it is risk management or distress or sectoral expertise."

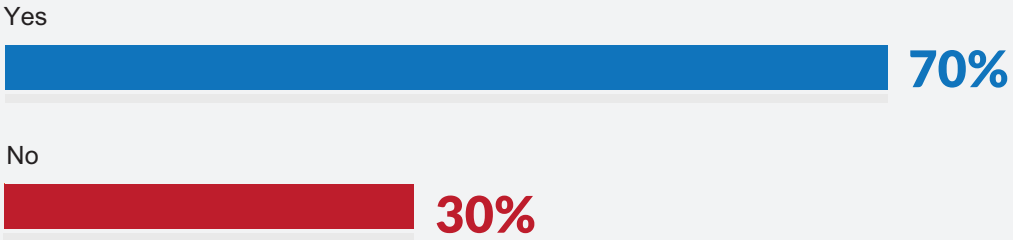
Asian debt also has great appeal

Another expert, who specialises on the Asian dollar and local currency fixed income markets, noted that due to a move up in terms of credit yields already this year of some 50-60 basis points, yields are standing at a rather attractive range.

"Accordingly," he observed, "for the near term the markets will likely go through a stabilisation phase that will support these valuations. For Asian high yield the average yield is about 6% at the BB level.

HEENA MAYANI
Global Precious Metals

OVER THE NEXT YEAR, WILL YOU INCREASE YOUR WEIGHTING TOWARDS CHINA EQUITY?



Source: Hubbis Asian Wealth Management Forum 2018

Local currency paper has done well, for example we have a Chinese long/short fund which has fared well this year to date as certainly local currency markets such as that are independent of where US rates are moving. This way, we can offer investors opportunities outside the US dollar interest rate risk that they have in their portfolios. The Chinese onshore bond market is now roughly about $1 trillion in size."

It is also possible to purchase broader Asian, investment grade corporate bonds through specialised funds that currently yield around 6%. One such fund has moderate duration of around four years and low volatility. For China directly, there are Renminbi onshore bond funds that similarly yield around 6% with duration of around three years and average ratings of BBB+.

Another fund expert then reinforced the value of income in the current environment. With an approach to stock and debt that is also determined by bottom-up selection the fund can achieve a roughly 5% per annum yield, with monthly distributions.

"We could be invested within a range of 40% to 65% in equities with a focus on dividend paying equities globally," he elucidated, "and we also have our fixed income base that at the moment is for the most part high yield instruments, mostly US high yield, although in different interest rate environments we could shift towards investment grade." He explained that they also manage the portfolio with what they call a reserve buying 'power bucket', which would be 5% to 15% of the portfolio.

"That would largely consist of cash, treasuries and an allocation to gold as well, which we view as giving us the opportunity to hedge the portfolio in more extreme macroeconomic circumstances."

India – a tasty recipe for investors

The Indian financial markets have expanded apace in the past two decades, and now has a broad universe of assets from the money and debt markets to equities, private equity, and private debt. "Whether you are selling hamburgers, pizzas, aircraft engines, washing machines there is a demand for everything in India because we are about 1.2 billion people," explained one guest.

TONY WONG
CSOP Asset Management

... THERE IS REGULATORY SCRUTINY FOR ALL OF US, SO WE ARE EMBRACING ETHICS AND GOOD CONDUCT, FOCUSING ON THE CLIENTS' INTERESTS FIRST AND FOREMOST, NOT SIMPLY CONCENTRATING ON COMPLIANCE.

"India has the consumption demand, we heard 75% of global emerging market demand is from domestic consumption and India has pretty much all of that. Through one of our funds investors can earn the yield of around 4.8% per annum plus have the equity upside. And looking at bonds India is the only country in the region to have got a credit upgrade in the last two years; we are now a BBB country and the history of default of Indian bonds ever since independence of India is zero - the national government, the state-owned companies, all have a faultless record.

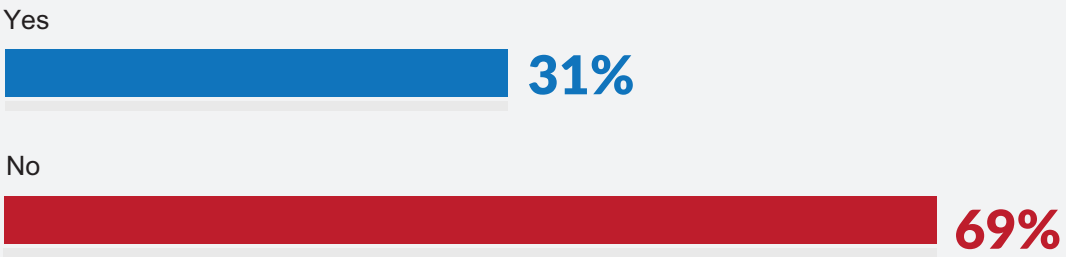
"Indian equities are very well-known as an asset class," another panellist noted. "Although Indian fixed income is relatively new, even though the Indian bond market is now almost equivalent to $1.7 trillion, making it the fourth largest bond market of Asia after Japan, China and South Korea. The world right now is on the cusp of some serious upheaval and the appeals of Indian debt - with the most liquid 10-year government bond yielding about 7.7%, are there for all to see."

Moreover, he noted that India enjoyed a credit upgrade last year and while some emerging markets are troubled - Argentina and Turkey for example - India is well managed currently and is the fastest growing of Asia's largest economies, so it is only a matter of time before India's inclusion in global portfolios. "We would argue," said this guest, "that any

PRAVEEN JAGWANI
UTI International

"DIGITALISATION CAN THEREFORE FUNDAMENTALLY RESHAPE EXISTING WEALTH MANAGEMENT MODELS AND STAVE OFF THE THREAT FROM NEW ENTRANTS."

WILL YOU BE INCREASING YOUR WEIGHTING TO PHYSICAL GOLD THIS YEAR?



Source: Hubbis Asian Wealth Management Forum 2018

global portfolio that does not allocate to India is probably doing disservice to the investor."

He also noted that India's equities markets have in recent years become far less reliant on foreign flows. "Local investors are now much more engaged in stocks, making the market far less susceptible to foreign flows and thereby giving the market a brighter future than at any time in its recent history."

ADRIAN CHEE
Credit Suisse Asset Management

Gold – always in focus in uncertain times

The focus turned to physical gold, always a go-to asset in times of financial market uncertainties such as are very gradually gripping the developed world markets this year. "Gold, for example a portfolio allocation of between 5% and 7%, acts as a natural hedge to debt and equity portfolios being a highly liquid hard asset. Gold has stood the test of time. Corporate clients can also avail themselves of our services, which these days cover the full suite, including the buy, sell, store, custodies and so forth. Gold in physical or bullion form is outside the global financial system. Clients decide where they wish to hold it."

China: vast opportunities await

And China must never be overlooked in any regional, or global discussion. Onse guest who specialises in the Chinese financial market highlighted his firm's role as the largest issuer of Chinese ETFs, in various asset classes and listed in the Hong Kong market, thereby providing easy global investor access.

"We are Hong Kong domiciled," he explained, "but we leverage our China expertise to help the international investor invest into China. Fund flows into China are up by 47% year on year, China is a vast economy, the world's second largest, and the total bond market is now the world's third largest."

The discussion closed with a further comment on China. "There is intensifying focus on the consumer there," an expert noted. "A gigantic population that is racing towards urbanisation is driving massive growth in every conceivable consumer item and service, from cars to houses to luxury goods, healthcare, education, power, banking, insurance, the list is almost endless." ■

ROBERT HORDON
J O Hambro Capital Management