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Creating outcomes in the best interests of the client

A need to raise competency and professional standards, as well as a desire to create favourable outcomes for the client, indicate that the development of new suitable products and services are at the forefront of the wealth industry's priorities.

These were the topics discussed:

- *How can you develop your advisory proposition and the quality of the client engagement?*
- *How are your clients diversifying?*
- *Are you increasing thinking about model portfolios? Passive vs active? Guaranteed products?*
- *What products do you feel would be most valuable in this market in 2018?*
- *Nearly everyone had a good year in 2017 - what are your best and worst predications for 2018?*
- *How will fees and transparency evolve - and is that good for you?*
- *What's your view on technology, margin pressure and regulatory reform?*
- *Multi asset, Income generation and liquid alternatives - Are these still the main themes?*
- *Distribution and licensing for banks and distributors - what's best?*
- *Should we differentiate between a professional and a retail investor when it comes to product approvals?*
- *What's the way forward for how product manufacturers and fund selectors should partner with each other going forward?*
- *Developing more Shariah-compliant products - what are the challenges and opportunities?*

PANEL SPEAKERS

- **Tariq Bin Hendi**, Executive Vice President, Head of Products & Advisory, Emirates NBD
- **Deepak Mehra,** Head of Advisory, Treasury and Asset Management, General Management, Commercial Bank of Dubai
- **Shiraz Habib**, Executive Director, Head of Investment Products & Solutions, First Abu Dhabi Bank

ONE-HUNDRED PERCENT OF THE AUDIENCE stated in a poll conducted during this panel discussion that there is a need to raise competency and professional standards, which is not a high accolade for the state of wealth management.

TARIQ BIN HENDI
Emirates NBD

DEEPAK MEHRA
Commercial Bank of Dubai

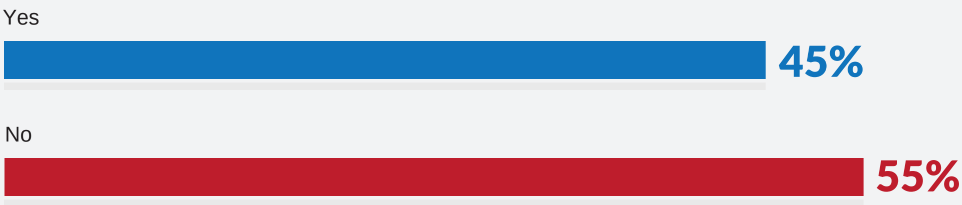
The discussion was at the Hubbis Middle East Wealth Management Forum on January 24 and began as one panellist observed that most clients in the Middle East "buy a few bonds, leverage them 55 times, and that is their idea of diversification." While this might be somewhat of an over- or under-statement, there is an acknowledged need for greater investment sophistication and diversification.

A panellist theorized that there has been a recent change in strategy, trying to move clients from advised positions, aiming for a more discretionary approach. "However," another panellist observed, "it appears that, increasingly, clients are looking to become more, not less, involved in decision-making."

Fixed-income certainly seems to appeal to clients more than diversification into riskier investments

HOWEVER... IT APPEARS THAT, INCREASINGLY, CLIENTS ARE LOOKING TO BECOME MORE, NOT LESS, INVOLVED IN DECISION-MAKING.

ARE YOUR CLIENTS STILL MOSTLY INTERESTED IN ONLY HAVING A DISCUSSION ABOUT FIXED INCOME?



Source: Hubbis Middle East Wealth Management Forum 2018 such as equities. "Trying to convince clients to diversify into equity is difficult when there has been low uptake thus far," continued the panellist.

It seems, explained another expert, that clients have been sitting on the side-lines while watching the markets go up, "trying to time when to take the leap and buy in." But this has been a poor strategy as the upward trajectory has now lasted nine years, and the smarter money got in early.

"It is now extremely difficult," said a panellist, "to introduce equity as an option, due to high valuations and such a long upward leg, even though we and many others believe the markets still have room to grow."

The advisory discord

A panel member then asked, "do all of you have an investment philosophy or structured advisory process, and is it mandatory for your bankers to follow it?"

One fellow panellist argued that the question is not about overall strategy, but rather of matching products to clients on an individual basis. "Ours is a fairly conservative institution, so we try to closely match products directly to the client's requirements." he elucidated.

Many clients are still interested in fixed income and leverage, but the multiples of leverage are now more conservative, and "almost non-existent" around high-yield names, noted one panellist.

The symbiotic co-dependency between client and institution was raised by another Hubbis question to the audience, which showed that 59% of the audience felt that the wealth industry does not often enough create outcomes that are in the long-term best interest of the client.

A panellist attempted to elucidate: "if our clients do not make money, then we will not be able to make money long-term."

Alternatives to fixed income generators

Income generation remains the key concern for investors. Particularly in the ultra-high-net-worth

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...THE QUESTION IS NOT ABOUT OVERALL STRATEGY, BUT RATHER OF MATCHING PRODUCTS TO CLIENTS ON AN INDIVIDUAL BASIS.

segment, the "hunt for yield" is the primary objective, explained one panellist.

The "tapered tantrum" in May 2013 was the first time the fixed income markets had a major jolt for many years, and there was a warning from the banks that rates may rise, began one panellist.

Since then, the focus has been more upon real economy investments, real estate, equipment leasing and trade finance. These can generate regular income without leverage and without taking excessive risk.

"We are looking at alternatives like income generating real estate, equipment leasing and trade finance funds for delivering income," explained another panellist.

"Shariah-compliant investments are also currently in demand," a panelist then indicated. "But the sheer size of demand out there is not being met with the current supply, which is why even sukuks that would be more harshly rated are getting a very favorable response from the market.

Diversify to multiply

A panellist then asked: "If your clients were looking to diversify, what would be the automatic go-to conversation that you would have with them?"

"We would show them everything that we think they should be doing with their portfolio," replied a fellow panellist. "A lot of clients are trying to not only diversify risk but diversify their exposure into less boring assets."

The same panellist added that the older generation continue to prefer to invest in hard assets. But it is not always advisable to buy into physical real-estate, sometimes derivatives thereof are also appealing.

Another alternative to fixed income, a panellist interjected, is to drive towards asset allocation. If a client has less than US$1 million to invest, diversifying into asset allocation funds might be a worthwhile alternative.

Conversely, if a client has a portfolio allocation, "we would work on a discretionary diversification model," the panellist explained.

No one-fits-all solution

The discussion then turned to the difficult choices that relationship managers must make when choosing directions for their clients.

Partner selection, explained one panellist, has become critical. "It is no longer enough to have a good brand; we must now be able to demonstrate diversified capabilities across asset classes and products."

"We require the partner to be physically in the region," one expert added. "If there is a flip in the US market, investors want to have immediate dialogue in their time zone."

The discussion closed with panellists explaining that close discussion is vital in order to find the right product for clients. "Clients will inevitably come and complain if an investment falls short of expectations," one of the panellists concluded. ■

IT IS NO LONGER ENOUGH TO HAVE A GOOD BRAND; WE MUST NOW BE ABLE TO DEMONSTRATE DIVERSIFIED CAPABILITIES ACROSS ASSET CLASSES AND PRODUCTS.