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Credit Suisse Asset Management: Adapting to win in Asia

Michael Levin, Head of Credit Suisse Asset Management (CSAM) in Asia Pacific, talks to Hubbis about the asset manager's performance in 2017, the shift to thematic investing, and the increasing focus on China.

2017 WAS ANOTHER STRONG YEAR FOR CSAM IN ASIA, according to Levin, which he says was evident in metrics beyond just performance.

"We had record net new assets raised in Asia," he says. "More importantly, our funds delivered broadly for our investors in both absolute and relative performance."

"But, the part that I found most rewarding, and I think is the best indication of future success, was that the ability of the team to adapt to dynamic market conditions to meet the changing needs of clients with relevant solutions," Levin notes.

In 2016, he says, the success CSAM saw in Asia was premised on delivering predictable, visible sources of yields with low volatility that allowed clients to apply sensible leverage to achieve their return objectives.

Moving towards 2017, though, a rising rate environment indicated that this approach might not continue to be suitable, he says.

To navigate this shift, the CSAM team was able to help its clients migrate their portfolios into floating rate asset classes and thematic equities, which can deliver performance that is less correlated with traditional fixed income or broad-based equity markets, says Levin.

"We helped to diversify client portfolios into investments like European real estate where we believe yields are attractive with supportive fundamentals and more accommodative monetary policy," he says. "So, the resourcefulness to effectively service client needs despite market conditions is the aspect of our performance that I'm most satisfied with."

Levin stresses that only a team effort can adequately cover a complex region like Asia across different markets, client bases, and asset classes. "I'm always proud of our team, how they work cohesively and collaboratively to deliver results for all of our stakeholders."

A rising tide

Elaborating on the turn towards thematic equities, Levin says that it is prudent to evaluate what investments are going to be most supportive in a rising rate environment, where GDP growth is declining, and companies with levered balance sheets are being challenged. Over the past few years, many investors took a yield-oriented view of higher dividend equities, Levin notes.

"To paraphrase the quote from Winston Churchill about democracy, I believe that people perceived equities as being the worst investment except for all of the others."

"Investors sought safety sectors like utilities that pay consistent dividends. In a rising rate environment, companies with levered balance sheets, anaemic growth opportunities and limited pricing powers will likely be the most negatively impacted," he explains.

According to Levin, because of the flows of assets into those sectors perceived as defensive, they now trade at a premium to the market rather than a discount.

"I believe those supposed safe-haven allocations within equities no longer represent the form of protection that clients were seeking," he says.

Going Thematic

So how do you adapt to an environment where rates are rising, and economies may suffer from slowing GDP growth?

According to Levin, the path through such a challenging environment is through participation

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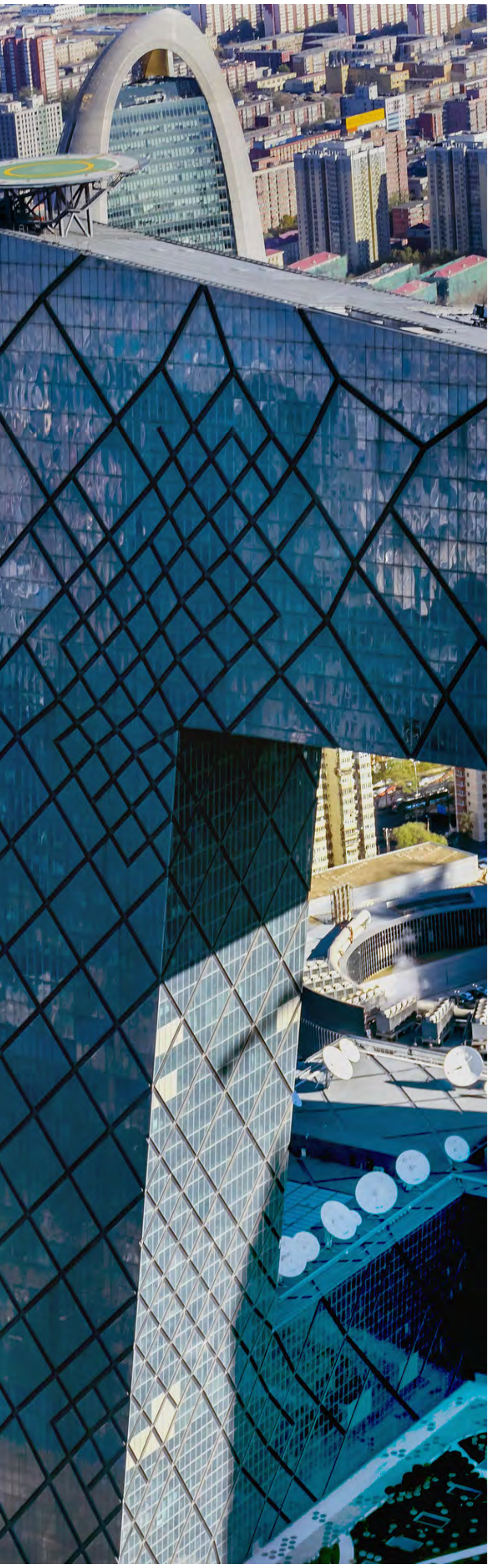
in secular trends like robotics and the digitalisation of health care that will grow independent of market or economic conditions.

"You should look for companies that have healthy balance sheets with low levels of debt and are likely to generate substantial, growing cash flow over time," he explains. "Even though there's substantial volatility and potential risk in the interim, over time, it is the right place to invest."

Thematic equities, he says, given the growth of the underlying companies and the reduced impact from rising rates, have outperformed in this environment, even when equities have declined like in February and March, which is not what you would expect for higher beta-type products.

"What was earlier perceived as risky may serve as a protection for portfolios. Given the ability to outperform on the upside in strong markets, high-growth thematic equity funds may even allow investors to reduce their overall exposure to equities," he points out.

Another aspect that Levin likes about investing in themes like



robotics and digital health is that active management can deliver outperformance. "There will be winners and losers," he says, and "investing in these sectors requires a deep understanding of technology, competitive dynamics and corporate fundamentals."

"It provides a great opportunity for active managers to add value."

Partnerships that work for all

Going into 2018, Levin says that CSAM has key priorities across its three principal business segments: distribution, products and partnerships. "In terms of distribution, we continue to invest in cultivating our relationships with third-party distributors by leveraging an understanding of client needs developed from working closely with our own private bank," he explains.

Levin says that CSAM is selective of these third-party private bank relationships and actively collaborates with them to deliver Credit Suisse's best-in-class solutions to a broader range of clients.

Challenged with the perception that being an asset manager that is affiliated with a private bank limits the appeal for a third-party private bank to offer CSAM's products to their clients, Levin pushes back.

"The easy answer is to say that they should be dismissive because clients can buy those products at Credit Suisse's private bank," he says. "My personal view is that if the focus is serving the best interest of their clients, even from a competitive perspective, it makes sense to offer the best products available from CSAM."

Japan, a surprise

Levin told Hubbis that CSAM is also looking at the Japanese market more intently than in recent years. "This may be surprising for some people, but we think Japan is one of the most exciting markets in terms of servicing the investment needs of institutional clients," he says.

According to him, Japan has one of the most sophisticated investor bases in the world, which is increasingly looking to diversify offshore and across investment strategies. "We have an exceptional team onshore in Japan with the ability to continue to work with clients to deliver differentiated solutions," he says. "Many clients in Japan have relied on lower-yielding traditional fixed income to deliver the results that they sought, but there's a real initiative to diversify the portfolios of onshore investors in Japan."

Eyes firmly on China

Another key priority for CSAM is China, where Levin says the firm has a long, rich history and commitment to China going back to a correspondent bank relationship in 1955 and an on-shore banking presence in 1985.

In 2005, Credit Suisse teamed up with Industrial and Commercial Bank of China to form China's first asset management joint venture with an onshore commercial bank. ICBC Credit Suisse Asset Management is now the second-largest asset manager in the country.

"We have a lot of competitive advantages, but we're not just focused on extracting money from China," he says. "We believe that, in the long-term, it is necessary to find a balance of capital flows."

Levin stresses that there's inevitability on both sides for money to flow into China–the need for China to open capital markets to sustain growth and for clients to increase their geographic alloca-

tion to the second largest economy in the world.

"We see equal parts opportunity in servicing the needs of clients in China, to diversify their portfolio on a cross-border and cross-currency basis, with providing access to China through equity and fixed income products that integrate onshore expertise with institutional portfolio construction and risk management capabilities," he says. "We believe the combination of ICBC Credit Suisse Asset Management and CSAM outside of China offers benefits to clients in both directions," he emphasises.

According to Levin, China is opening up at a quick clip. "I think it'll be fairly dramatic over time," he says. "I believe that China is making a concerted effort to open up their markets in terms of access through the Stock Connect, Bond Connect and China inter-bank bond market."

He notes that there is already a rapid maturation in the sophistication of the products that are being offered to clients in China and what they're demanding in terms of diversifying their portfolio.

Levin says his confidence in the opportunity in China focus is bolstered by the recent regulatory announcements around QDLP (Qualified Domestic Limited Partnership), and the potential for offshore investors to take to majority stakes in financial institutions in China. In February this year, China resumed the outbound investment scheme after a two-year hiatus, granting licenses to multiple global money managers— with newly-qualified firms allowed to invest up to USD50 million under QDLP.

"The key to success in China is a long-term, demonstrated commitment to invest in an unwavering fashion," says Levin. "If you make the mistake of over-investing and then retracting when you don't get immediate results, then you're not built to succeed in China."

"But, if you make thoughtful, incremental investments into China through the cycle, you will be rewarded over time," he states. ■