Developing the product and advisory proposition in the Middle East

The Hubbis Middle East Wealth Management Forum offered the audience to listen in to a fascinating, broad-ranging discussion covering the development of the Middle East high-net-worth (NHW) investor psychology, the wealth management industry's evolution and perspectives on global asset allocation.

These were the topics discussed:

- *What are the biggest priorities for the years ahead for Middle East clients and the wealth management firms that work in the region?*
- *Is there a big disconnect between what a client needs and what they have in their portfolio today?*
- *Are clients overly concentrated on risky assets? Or are they becoming more diversified?*
- *Is it likely that clients will be more interested in discretionary portfolio management (DPM)?*
- *Have portfolios performed well in recent years? By luck, or by design?*
- *How should portfolios be restructured for today's environment?*
- *Can the wealth industry evolve more towards fee-driven and advisory-focused services?*

PANEL SPEAKERS

- **Biswajit Dasgupta**, Chief Investment Officer, Head of Global Markets, Emirates Investment Bank
- **Shiraz Habib**, Managing Director & Head of Investment Solutions, First Abu Dhabi Bank
- **Malik S. Sarwar**, CEO, K2 Leaders
- **Matein Khalid**, Chief Investment Officer, Asas Capital

Link to Content Summary page
Link to Photos
Link to Event Homepage

hubbis

THE KEY TAKEAWAYS

Leverage with caution

In the fixed income arena, investors are considerably more cautious about leverage, and need to focus on higher-yield paper in order to make the carry returns, given higher interest rates. The more complicated markets are encouraging people to gravitate very slowly towards discretionary and advisory.

Take a big picture perspective

Looking over the short-, medium- and longer-term horizons is essential. Encouraging discussions on global asset allocation and measurement of performance against benchmarks is strongly encouraged, and this strategy is gaining traction, as more clients appreciate the inter-connectivity of markets and realise that sophisticated views and asset allocation are required, especially in more volatile markets.

Evolution from the top down

Leadership of the leading brand name private banks and wealth management institutions should focus on directing client-facing staff to diversify revenues towards advisory, financial planning and other value-added services, as product revenues are falling with internet-enabled trading, and as clients seek a more balanced view from their relationship managers.

Private markets offer opportunities

Given the volatility in public markets, investors could focus on private markets, where there are still inefficiencies that in the hands of a good manager can yield good returns. Detailed due diligence and co-investment alongside the promoting financial institution are advised.

Accept that fees will be cut

An expert advised leading financial firms to accept that lower fees are the way forward, and market their advisory and other services at those reasonable levels, as clients will more likely work with those offering reasonable, transparent fees, rather than asking for more at the outset.

Asset allocation opportunities

The panel had divergent views on the world of investments but appeared to be consistent in their advice to focus on China, where growth is slower but still remarkable, and where there appears to be a softening of stance whereby the US relents somewhat on traded and China allows its currency to appreciate. Other markets of interest include India and the ASEAN region, especially Thailand. Yielding, blue-chip stocks in the US, Europe and Asia are favoured by those with less risk appetite. For those investors who are braver and can be patient, private markets, particularly related to Asian assets, and technology names in the US and other leading markets are advised for selective accumulation.

IS LEVERAGE STILL ON THE TABLE for Middle East high-net-worth individuals (HNWIs) to rocket-propel returns on investments such as bond funds? The market for leverage has dropped sharply across Asia, as risk appetite has fallen but how does the GCC region stand?

"Clients today are very focussed," observed one panellist. "They are selectively buying into funds, they remain interested in fixed income, but mostly investment grade, or with regard to leverage they are considering more high yield, due to the higher costs. We see self-managed, execution-only type clients who have portfolios that are hurting somewhat beginning to ask more about discretionary and advice. People are therefore considering accepting a cost for advice, but most people here still talk about actual returns, not relative to the benchmarks."

Another perspective came from an expert who said his firm had been consistently reinforcing the value of asset allocation, of building long term portfolios. "As the general situation in the region started to look a little bit less optimistic, people started to listen a little more closely to that advice and over the last year or so we have actually had a reasonable move from self-directed portfolios into discretionary. Thankfully, the performance has, by and large, beaten benchmarks, even if not always positive. It is never an easy discussion to have with the clients when he has lost money, but with reference to the rest of the world and if we can show we outperform, then it is a conversation

SHIRAZ HABIB
First Abu Dhabi Bank

MALIK SARWAR
K2 Leaders

that we can have, as they mostly understand that if they had managed things alone, they would have lost more. Those types of discussions generally end on a good note."

An issue raised by the panel is the quality of the private bankers and wealth managers and the advice, platforms and services on offer through them. "I am conducting 99% of my personal work and the family I work through interactive technologies," said a panel member. "Costs have come down dramatically, perhaps 95 per cent in some cases, so the rationale of private banking, the value proposition needs to change, also because people have changed, their risk paradigms have changed."

He added that his advice is to remain very equity-focused currently and that he sees little value in the bond market, especially high yield and particularly the US market, even if the spread is at 430 basis points.

Another expert said he fundamentally disagreed with the view that the quality of private bankers is falling. "I believe it is their management getting greedier and more desperate," he opined. "As we know, ice melts from the top." But he also observed there are changes afoot, for example, he noted that one well-known global bank has been directing its compensation scheme away from transactional revenues and towards a reward for financial planning reviews and other services delivered. "It is a step in the right direction, but many other institutions do not even take this step, which is why I think our industry is challenged."

He added that financial institutions should strive to become best in class, noting that Amazon is already earning plaudits for banking in the US above the four top institutions there.

Another expert returned to the subject of asset allocation, noting that there is increasing rotation to emerging market equities and interest, for example, in going back into the US, a trend of which his firm is engaging clients. He said with a global allocation perspective, clients are trying to see how they can better weather the emerging conditions.

Another panellist said it was vital to take a near-, medium- and longer-term view. For example, he indicated that in the medium-term, two- to four-year horizon, one could imagine the US slipping into recession, China's efforts to re-inflate the economy hampered by an exploding debt bubble, Italy needing to restructure its debt and so forth. Overlaid on this, there are structural issues for the longer-term such as the impact of climate change on economies, changing demographics, welfare systems, pensions, consumption patterns, healthcare costs, amongst others. And technologies, for example, artificial intelligence (AI) and machines, are they threatening the role of human beings.

BISWAJIT DASGUPTA
Emirates Investment Bank

"We believe that anybody who is looking at a long-term wealth plan has to keep all these things in mind," he continued. "We aim to keep our clients sensitised to these issues and the result is people are taking a slightly more global view of things, they have, for example, stopped thinking of the next big real estate investment in Dubai as the

be-all and end-all of investment management. And our overall discussions are translating into discretionary mandates, but right now what gives me a lot more hope is that there is plenty of dialogue and that equally, people understand that we do not have all the answers, yet they are happy to work with us and coming up with solutions."

The theme of discretionary and value proposition continued with a panellist advising the audience that a clear understanding of the client and selecting the appropriate avenues through which to service them are essential.

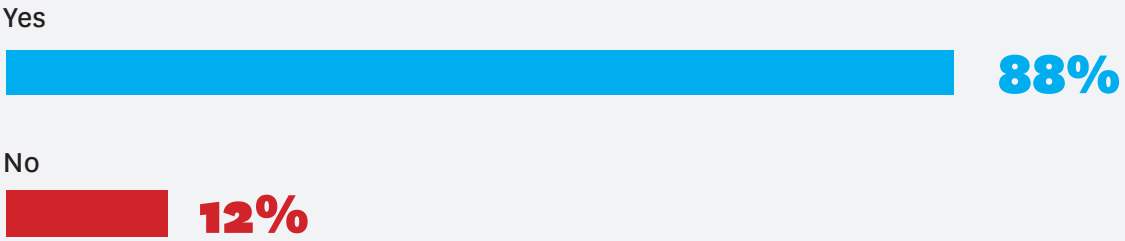
"The retail segment will tend to focus on investments for savings plans and accept robo-advisory, which will be a big threat to the execution-only model that a lot of the banks are thriving on in the region," he reported. "And for the elite or the premier banking clients, ensure that there is an upscale proposition. With regard to discretionary and advisory, it is fairly clear the DPM is more for the institutional base. For clients with portfolios of USD5 to USD20 million they want more active engagement, or they favour advisory over DPM, but if you are not adding value year on year, be ready to lose that advisory fee, so work in the best interest of making client a return so that he will work with you year on year."

Another panellist observed that, dependent largely on the wealth in question, an allocation to private markets is warranted. "With public markets where they are," he said, "there are still inefficiencies that exist in the private markets that in the hands of a good manager can yield good returns. We operate from an open architecture platform and we do a lot of heavy lifting in terms of accessing these products and then make sure we conduct solid due diligence. We often invest alongside the investor to give them comfort of aligned interest. It is valuable especially in this part of the world, where clients are not easily able to access this level of expertise."

If fees at, for example, 1% on advisory, are resisted, an expert advised reducing them. "They are coming down already," he noted, "and you can also aim to add more value, because ultimately clients will pay money for value. Accordingly, the branding message, the offering, the connectivity, the client education, this is all part of one big package." He added that he sees in the US that big name firms will drop their fee demand, and it is better to offer that lower fee in the first place than be negotiated down and people often prefer to go to the firm that is

"THE RETAIL SEGMENT WILL TEND TO FOCUS ON INVESTMENTS FOR SAVINGS PLANS AND ACCEPT ROBO-ADVISORY, WHICH WILL BE A BIG THREAT TO THE EXECUTION-ONLY MODEL THAT A LOT OF THE BANKS ARE THRIVING ON IN THE REGION,"

CAN YOU IMAGINE THAT WE WILL MOVE TO A FEE FOR SERVICE MODEL IN THE NEXT 5 YEARS IN UAE?



Source: Middle East In Asian Wealth Management Forum 2019

transparent and realistic from the outset.

"Clients want safety, liquidity, and yield," the same panellist elucidated. "If they want more of one element, for example, 100% protection through structured products, they have to give up on the liquidity, or on the yield. Educating clients and putting it in the SLY format - safety, liquidity and yield - is welcomed by clients who like the simplicity of the message."

The discussion closed with the panel zooming in on some of their preferred areas for asset allocation. "For a conservative investor," one expert commented, "the best asset class in this volatile market - and I am not very optimistic this year - is Blue Chip dividend-yielding largely Asian, European and US stocks. Big names such a consumer or healthcare brands, like Pfizer or Johnson & Johnson, will fluctuate less because they are represent more value than growth. In short, stay defensive and stay in equities."

He added that if he was less risk averse, he would focus on the harder hit sectors such as technology and Big Tech. I would accumulate those brand name stocks, but that requires more guts to weather the storm. And for the longer-term, if liquidity is not a factor, I would focus on private equity deals, especially as they relate to ASEAN as well as Hong Kong and Greater China."

He added, as an aside, that China continues to grow at about 6 per cent. "Everyone is worried," he said, "but think of what that means for a USD13 trillion economy, it is a vast increase. And India growing its USD2.7 trillion economy at 8 per cent. So the opportunities are still vast."

Another panellist commented on the low valuations in China, which are in the region of 10 times prospective earnings, offering an excellent opportunity. "I think basically there is some kind of quid pro co between Beijing and Washington that says, okay you ease off on the trade tariffs, and China, in turn, will let its currency appreciate. So, that is the best possible time to be in China domestic growth."

He said his other play in Asia is Thailand, where the market is now trading at 14 times earnings and the country has a current account surplus of 9% of GDP. "Thailand is attracting huge FDI from Japan and South Korea because it is the hub of the electronic and auto supply chains. The country is heading to some sort of a democratic transition, which if it goes through alright will offer Thailand great upside, perhaps of 30 per cent or more. Look for proxys for the economic, such as the major banks like Krung Thai Bank."

MATEIN KHALED
Asas Capital

The final words went to a panellist reiterated the positive view on China, and promoted India, for many of the same reasons. In the US market, he advised selectivity and the use of derivatives. As to private markets, he advised clients to begin looking at distressed debt, and at positioning themselves in technology again.

The discussion ended with a word of advice from an expert who said that asset allocation will depend considerably on how strong the risk-appetite and fortitude the investor has to weather the volatility. "This is helping us gain traction with clients, who generally like to sleep well at night and have us help them manage this volatility. ■