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Discretionary portfolio management and advice

The second panel gathered to discuss the benefits of discretionary portfolio management (DPM), which many see as a holy grail providing recurring fees, as opposed to one-off payments for selling products such as shares, bonds, funds and structured products.

These were the topics discussed:

- *Advice vs discretionary - what's best?*
- *How are you working with third-party partners?*
- *How can you differentiate your DPM offering? To what extent can you be innovative?*
- *Given more challenging market conditions - is advice more important than ever?*
- *Do Asian clients still have a strong desire to retain control? How do you deal with that?*
- *Opportunities of key market mega-trends of millennial, baby boomers, women empowerment, ESG, SRI. How are you capitalising on these?*
- *When a client gives you an active advisory mandate - what are their expectations?*
- *Do Asian clients have unrealistic expectations for higher risk-adjusted returns? Or less so today?*
- *How do we provide any real intellectual insights?*

PANEL SPEAKERS

- **Jean-Louis Nakamura**, Chief Investment Officer, Asia Pacific - Chief Executive Officer, Hong Kong, Lombard Odier
- **Bryan Goh,** Chief Investment Officer, Bordier & Cie
- **Christian Abuide**, Head of Discretionary Portfolio Management, Standard Chartered Bank
- **Gary Tiernan,** Head of Investments, Crossinvest
- **David Gaud,** Managing Director, Chief Investment Officer - Asia, Pictet

PANELLISTS BEGAN BY DISCUSSING THE VALUE of providing managed investment products in-house, versus outsourcing that side of the business to asset management companies. "Outsourcing means you can focus on client relationships," elucidated an attendee, "which leads to a deeper level of understanding of individual clients so that we can expertly manage their expectations."

Local banks in Thailand, the Philippines and Indonesia really know their customers. They also outsource their DPM portfolios. This model of small private banking firms with strong client relationships, coupled with outsourced asset management, is pre-

"OUTSOURCING MEANS YOU CAN FOCUS ON CLIENT RELATIONSHIPS, WHICH LEADS TO A DEEPER LEVEL OF UNDERSTANDING OF INDIVIDUAL CLIENTS SO THAT WE CAN EXPERTLY MANAGE THEIR EXPECTATIONS."

dicted to be one of the driving forces of the industry going forward by some panellists.

Volatility needs an expert hand at the tiller

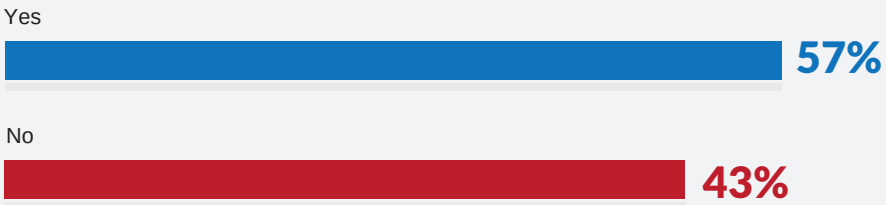
In the last nine years, there has been a slow uptake of DPM offerings by clients. The reasons for this include client preference for autonomy and an inherent dislike for paying fees.

"It's just not in the nature of the Asian investor to leave such important decisions to someone else," explained a panellist. "If the markets are easy, that is fine, but in more volatile markets it is better to outsource the decision-making to experts."

Panellists agreed that there need not be a stark choice between advisory and discretion, rather there

BRYAN GOH
Bordier & Cie

DO CLIENTS GET CONFUSED BETWEEN ROBO ADVISORY AND DPM AND MANAGED INVESTMENTS?



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can be a sweet spot somewhere in the middle, benefitting from both types of portfolio.

For the clients who have historically chosen to do it all by themselves, a degree of discretionary can indeed sit comfortably alongside advisory. In order to promote DPM as a viable option, wealth managers must show clients that they can add value to their portfolio.

Retro, but not in a good way

The panel of experts then turned to the difficult subject of retrocessions - the backhanders paid by fund managers to private banks for promoting their funds to the banks' clients. Regulators do not approve of retrocessions unless they are fully disclosed to the clients, as they are considered evidence of impartiality and dubious motivations.

Eighty-eight percent of the audience attending the panel felt that private banks do not yet conduct themselves in a transparent, fair, consistent way.

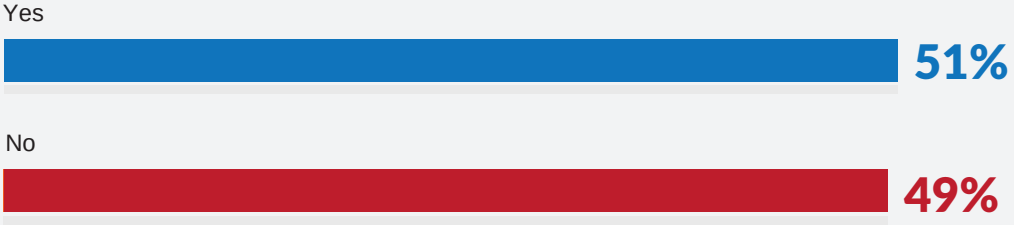
"Retrocessions can bring slippage to clients," explained an expert, "and show that the company is incentivised to sell certain products regardless of their suitability to the clients' needs, so they are best avoided."

How do we know when we have done well?

Clients want to know that their discretionary fund manager is doing a great job. But how do we value

GARY TIERNAN
Crossinvest

DO YOU SEE MUCH INTEREST FROM YOUR CLIENTS TO INCREASE THEIR DPM?



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JEAN-LOUIS NAKAMURA
Lombard Odier

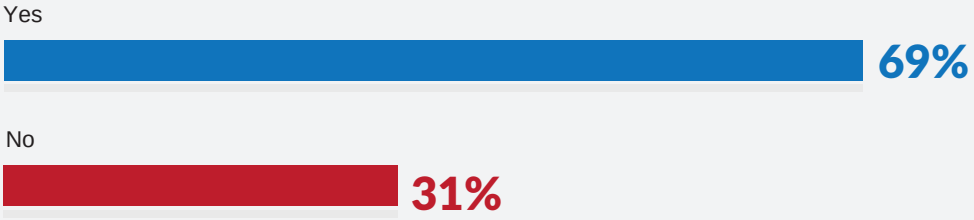
that job compared to others? How do we find the benchmark?

Of course, we can compare ourselves to our peer-groups to determine bench-marks, but these are always changing on an individual level. "Instead," suggested an expert, "we need to go back to day one. What were the clients' objectives, and how well were they addressed and achieved?"

A related issue is the sheer volume of investment options available today. "Our HNW clients can now access, at reasonable costs, a vast array of opportunities," commented a guest, "which means that they have to negotiate a constant stream of information and noise."

"OUR HNW CLIENTS CAN NOW ACCESS, AT REASONABLE COSTS, A VAST ARRAY OF OPPORTUNITIES," COMMENTED A GUEST, "WHICH MEANS THAT THEY HAVE TO NEGOTIATE A CONSTANT STREAM OF INFORMATION AND NOISE."

ARE YOU ENCOURAGED AND INCENTIVISED TO SELL DPM TO YOUR CLIENTS?



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To counter this, the nature of DPM means that a lot goes on behind the scenes. “All of the development, analysis and implementation is carried out internally, so the client does not see all the details, just the finished products,” elucidated a panellist.

Managing client expectations is arguably the most difficult part of the wealth management relationship.

“Every mandate should begin with a frank discussion,” suggested an expert, “where we ask what the client already has, what they want, and then we can offer what we think they need.” This is hampered by the fact that clients often withhold information regarding their other holdings and bank accounts.

DAVID GAUD
Pictet

Trending – a younger generation with an ethical conscience

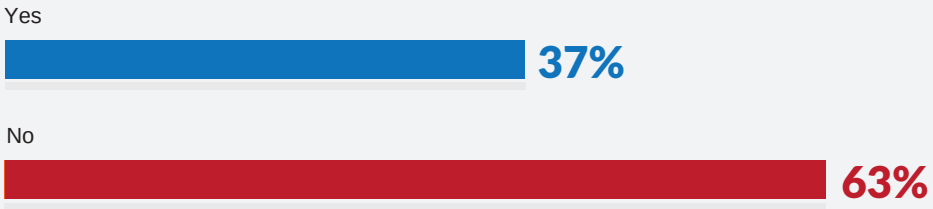
Environmental, social and governance (ESG) criteria has recently become a big trend. Baby boomers, the next generation and women all have distinct criteria as investors.

Investment themes such as ESG, or tech, or artificial intelligence are interesting from a marketing point of view. “However,” a panellist warned, “only a few of them will translate into a promise of sustainable and substantial return for portfolios.”

As millennials make up an ever-increasing part of our client base, private banks are working on developing products that appeal to that younger generation. It appears that they prefer to outsource their

AS MILLENNIALS MAKE UP AN EVER-INCREASING PART OF OUR CLIENT BASE, PRIVATE BANKS ARE WORKING ON DEVELOPING PRODUCTS THAT APPEAL TO THAT YOUNGER GENERATION.

ARE YOUR CLIENTS SHOWING MORE INTEREST IN ESG?



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portfolio using DPM strategies, and to move fast. Automated and web-based options are also gaining in popularity.

What causes us lost sleep?

With volatile markets on the horizon after a calm period, there are some issues getting wealth managers hot under the collar. “When things go wrong for a DPM manager, the liability is higher, as we are involved in more liquid, complex markets,” warned a panellist.

Leveraged loans are high-yield but not transferable securities and come with settlement risk. “When that settlement cycle is two or three weeks long,” said an attendee, “especially in Europe, combined with a fast-moving market where assets are changing hands rapidly, we need to find a way of short-circuiting that settlement cycle.”

Keep it simple!

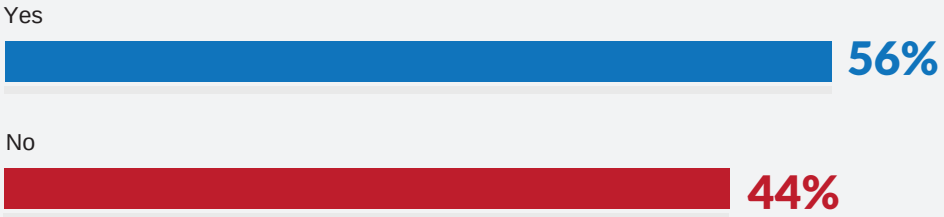
Panellists agreed that it is helpful to keep investment options simple in the current climate and try not to confuse clients with too much choice. “Just choose between equities and bonds and forget about loans,” suggested one expert.

Additionally, the age of the investor needs to be considered upfront. A younger investor takes many risks, while an older investor prefers to reduce risks and secure their holdings.

CHRISTIAN ABUIDE
Standard Chartered Bank

A final comment from an expert wrapped up the discussion. “Human beings are emotional, and they get anxious when the markets do not go their way,” he observed. “It helps if we smooth the return for our clients, adjusting performance and removing spikes, in order to reduce the risk of them pulling the plug at the worst time.” ■

HAS THE PERCENTAGE OF YOUR CLIENTS ASSETS IN MANAGED INVESTMENTS INCREASED DRAMATICALLY IN THE LAST TWO YEARS?



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