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Engaging the client, selecting the best products, achieving the best outcomes

There are many facets to the efforts of wealth managers to improve the performance, and satisfaction, of their high net worth clients. A panel of experts assembled for the third roundtable discussion of the day to highlight their views on the optimisation of client relationships and performance.

These were the topics discussed:

- *How are clients engaging managed investments in 2018? Trends and developments?*
- *How do we select the best funds and products?*
- *How can we optimise the clients existing portfolios?*
- *What are the benefits of a managed account platform?*
- *Is it possible to deliver digital advice? What's the role of technology?*
- *Is there a role for robo / AI - to improve the process and get a better outcome?*
- *What are the clients expectations today?*
- *How do we personalise the approach to each client?*
- *Does a multi-manager approach using the best-of-breed managers help deliver consistent performance over time, particularly during volatile periods?*
- *Do manager allocations within a portfolio need to be actively managed to adapt to changing market conditions?*

PANEL SPEAKERS

- **John Lau**, Portfolio Manager, SEI Investments
- **Justin Bramley,** Director, Managed Investments- Asia Pacific, Citi
- **Anthony J. Harper**, Chief Executive Officer and Co-Founder, Axial Partners
- **Robin Chay,** Senior Vice President, Discretionary Portfolio Management, DBS Bank
- **Julien Le Noble,** Co-Founder, Finantix Smartfolios
- **Paul Stefansson,** Managing Director, Global Co-Head of Investment Funds, UBS Wealth Management

"**WE ARE FACING A MAJOR UPHEAVAL IN THE** foreseeable future," said a panel member who represented a major global bank. "We have an in-house view that in the year ahead we will have as many as six interest rate increases. For the first time in some 20 or 30 years investors in fixed income are going to have to change their outlook. For the past three decades if you were long credit and long duration, you were in the right place. Some 50% of investment grade paper is now BBB, which is one notch above junk."

"Fixed income is therefore going to become complicated," he added. The yield curve is nearly inverted

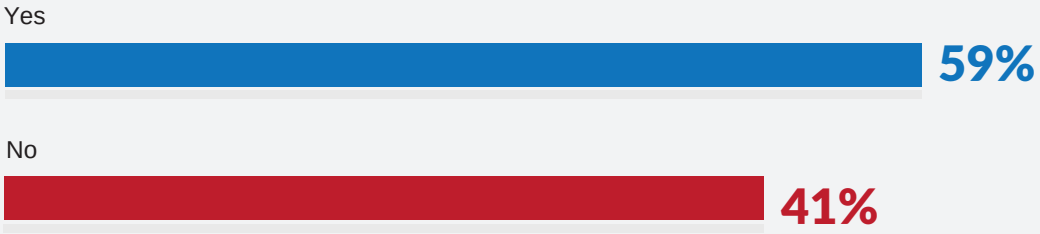
now, with only 50 basis points between the two and 10-year paper. If the Federal Reserve raises rates six times, in other words rates rise by 1.5%, there is a real chance the yield curve will invert, which is not good as most of our investors are leveraged, borrowing short and lending long, the same as the banks effectively. Modest leverage is probably still OK, but excessive leverage as we saw in 2008 will destroy portfolios when there is the next crisis and we all know there is going to be crisis."

JOHN LAU
SEI Investments

Follow the leaders...

"We all tend to follow the herd instinct," he continued, "which is why PIMCO Income has been followed by so many banks and advisers. If it is seen that a particular manager has proven ability to produce alpha, then we all tend to herd in together. Looking forward, we are always on the outlook for

ARE YOU UNDER MORE PRESSURE FROM SENIOR MANAGEMENT TO SELL PRODUCTS TODAY THAN TEN YEARS AGO?



Source: Hubbis Investment Solutions Forum 2018

new asset classes, new managers and certainly in this environment we will need to diversify, for example adding senior loans and other asset classes."

Another global bank representative noted that his bank is taking more customised solutions to clients. And one expert followed up on that theme, noting that clients today want more customisation in discretionary portfolios and access to the best thinking from third party money managers, beyond the mutual funds herd mentality approach.

Customisation a key trend

"Managed accounts provide the ability to construct an underlying portfolio based on securities that can be tailored to a client," he explained, "and that is a message being well received by the Asian HNWI market today. We think this trend fits neatly with the shift away from transaction-driven business; people want more choice and open architecture."

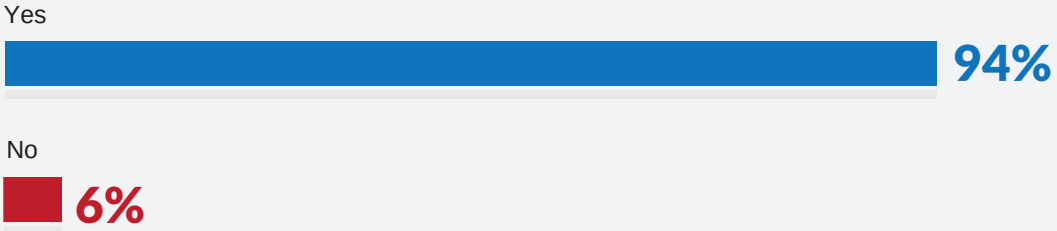
"Several of the global banks are actually world leaders in managed accounts in the US market," he continued. "This allows them to shift from transactional assets where they are receiving commissions to fee-based assets where they are tied to the client and have an ongoing responsibility. Just two of these global banks account for an estimated $1.5 trillion of managed accounts in the US."

Aligning interests

"The benefit is that there is an alignment of interests, with the advisor, the wealth manager sitting on the same side of the table as the client. That client is

ANTHONY J. HARPER
Axial Partners

SHOULD THE INVESTMENT OFFERING TO OUR CLIENTS BE SIMPLIFIED?



Source: Hubbis Investment Solutions Forum 2018

ROBIN CHAY
DBS Bank

no longer being sold a solution but is instead being consulted under a discretionary agreement and getting access to that idea of consulting and institutional range of solutions. Pricing, transparency, and tailoring are all key features that are advantageous for the client. And for the banks themselves it creates an annuitized revenue stream which bypasses the need to keep selling product after product. "Yes," answered a global bank panellist, "we are bringing best practices from the US and Europe into Asia and we will see more enhanced solutions here. The banks have to be careful that we do not end up as the next Kodak, in other words killed by the new technologies and old ways of thinking."

"THE BANKS HAVE TO BE CAREFUL THAT WE DO NOT END UP AS THE NEXT KODAK, IN OTHER WORDS KILLED BY THE NEW TECHNOLOGIES AND OLD WAYS OF THINKING."

Another expert highlighted his firm's work on multi-manager programmes running to about $350 billion working with about 500 institutional clients in major private banks throughout the world.

"We put a portfolio of diversified managers together as best of breed. We analyse the last 10 years broken down into two five-year phases. With no exception, at least half of the managers came from the bottom half and then vice versa, in other words many of the winners in the first five years dropped far down in the second phase."

Picking managers on past performance? Not advisable...

"My point here," he said to clarify, "is that performance is therefore a poor indicator of returns. In the past five or six years in the US value investing has been struggling, as the market environment has worked against them. So, simplistically it might be best to take a combination approach for example with the best value manager, the best growth manager, the best quantitative momentum type manager in combination and then adjust depending on the market conditions. We have to also do our due diligence on managers to see if they have been cutting headcount. And we need to obtain from them exact performance data rather than relying on what they might have said."

"I agree with much of that," another panellist responded. "But it is so often the case that managers are cut just before they outperform and vice versa. I think the most important thing is making sure your portfolio is built from the underlying asset classes in the beta rather than just relying on alpha."

Another expert noted that the DPM construct suits some clients where they want to be more hands off, whereas when they want more control they can choose managed investment vehicles and more directly engage in decisions.

Digital as enabler not disruptor

The digitisation of the advisory and investment process is another key trend emerging across the globe. "This," explained one expert, "achieves three key goals. First is transparency in the recommendations and the investment propositions that a bank or the adviser puts to clients. Second, this achieves systematic and disciplined investment process tools to CIOs or investment specialists, advisors, for them to then explain to clients how the recommendations or the portfolios are built. Thirdly, it provides cost-effective solutions."

He added that all these features fit neatly with trends already discussed on the panel, towards customisation, personalisation and discretionary management. "Technology really becomes an enabler for greater transparency, more cost efficiency and a higher personalisation of the investment process. We see this as an enabler and a hybrid solution that still retains the human relationships in the process, so it is not a disruptor. The banks see the value of Fintechs when there is a solid proposition and innovation going on that benefits the institution and their clients."

But Big Tech might be the Big Disruptor

Technology will certainly have a massive impact and can work well alongside the banks and wealth advisers, agreed one global bank representative.

"Technology is obviously going to radically change everything, and we have not even talked about algorithms or AI, which we are already working quite extensively on." These will potentially dramatically enhance the personalisation of the interface with clients, retail at the outset but moving then to HNWIs.

"However," he added, "there is one massive risk we see ahead in the form of Big Tech." His fear is that looking for example at what Alibaba has already achieved in financial services and therefore what,

JUSTIN BRAMLEY
Citi

"TECHNOLOGY REALLY BECOMES AN ENABLER FOR GREATER TRANSPARENCY, MORE COST EFFICIENCY AND A HIGHER PERSONALISATION OF THE INVESTMENT PROCESS."

for example, a Google could achieve, it could spell disaster for the traditional banks and financial institutions.

Panellists tended to agree that the wealth management industry is moving gradually away from the product centric approach and moving closer to the customer in order to keep its services and connections relevant.

"Here," said one expert, "what we really mean is knowing how the customer perceives risk appetite, investment goals, regional or geographical preferences, how the family needs fit into their wealth planning and so forth. Technology solutions can significantly enhance wealth firms' capabilities in this regard."

The end of conflicts of interest?

The discussion closed with panellists focusing in on the future.

"I am a very firm believer that commissions are going to zero, retrocessions are going to go to zero, spreads are going to zero," opined one banker.

"We will end up with one fee that advisory firms and banks charge the clients. At that point it eliminates a tremendous number of conflicts of interest and then the focus in fully in performance. I think this is a better situation we are all moving towards, driven by competition, regulation and customer preferences."

Another banker agreed, adding: "Buy side fees, research, all these services are ever cheaper. But there is clearly the ongoing need for professional advice and we believe the DPM model is the way forward. In Asia, there has got to be a balance, as culturally clients are still very advisory based." ■

JULIEN LE NOBLE
Finantix Smartfolios

"BUT THERE IS CLEARLY THE ONGOING NEED FOR PROFESSIONAL ADVICE AND WE BELIEVE THE DPM MODEL IS THE WAY FORWARD."

PAUL STEFANSSON
UBS Wealth Management