Getting on the front foot to deliver performance

Asset managers should help private bank clients look through the windshield, not the rearview mirror – by making portfolios more resilient in challenging market environments, says Michael Levin of Credit Suisse Asset Management.

Compared with the first six months of 2017, where accommodating markets helped private banks – and their clients – to generate outperformance, now is a good time to take a step back and diversify HNW portfolios.

This is according to Michael Levin, head of asset management for Credit Suisse in Asia Pacific, who says that less market directionality and lower levels of interest-rate sensitivity seem to make sense right now.

"Everyone has had the opportunity to really think about ways to enhance the risk-reward characteristics of their portfolio and we're seeing a forward-looking mentality among clients," he explains.

He says he sees more of a realistic perspective and understanding that it will be difficult to replicate the performance in the first part of the year. "We also have the recent memory of January and February 2016, which were quite painful, so we should take the opportunity we have been given now, to work closely with clients to adapt their portfolios," he adds.

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MICHAEL LEVIN
Credit Suisse Asset Management

TAKING THE LEAD

Credit Suisse, for instance, came out with its first fixed-maturity bond fund in 2016 as a less volatile solution for clients to put cash to work.

The outcome has given good reason for optimism; the fund raised USD3.3 billion and was closed to new subscriptions to ensure delivery on targeted yields and effective management of capital.

"We created a diversified portfolio across bonds to mitigate single issuer risk," explains Levin.

It was US dollar-denominated to eliminate currency exposure.

Plus, the portfolio carried an average investment-grade rating to reduce credit risk and a shortened duration to make it less interest-rate sensitive while still allowing clients to maintain daily liquidity in their portfolio.

"The reason it was successful," explains Levin, "is that it met the needs of clients and it leveraged our expertise."

Credit Suisse took an innovative twist this year, launching a fixed-maturity US loan fund to address client demand for floating rate instruments to protect against a rise in interest rates.

The fund also exceeded its target and closed to new investors with USD1.4 billion raised in five weeks.

More broadly, Credit Suisse is in its second year of a turnaround plan to scale back its securities business while expanding in wealth and asset management because of the potential for steadier revenues.

CAPTURING THE POTENTIAL IN INDIA AND CHINA

To enhance portfolios further, meanwhile, Levin is seeing that HNW clients are generally under-invested in India and China, two of the world's largest economies.

"The biggest transformation we will see in the geographic exposure of client portfolios in the coming years is an increased allocation to India and China," he predicts.

And asset managers are able to nudge a change in this direction. "Global investors are materially under-allocated [to China and India].

So on the product side, our focus is to provide access to equities, fixed income and balanced solutions in both countries, and in particular leveraging our leading joint venture with ICBC and strategic partnership with HDFC Asset Management [in China and India, respectively]."

On the distribution side, Levin says Credit Suisse believes that it can best leverage its capabilities and experience working with Credit Suisse Private Bank and understanding the needs of (U)HNW clients in serving third-party distribution partners.

This is in line with the firm's long-term bigger-picture strategy for asset management – to identify the best partners, emphasise education to deliver its solutions and define risks and rewards for clients – and then back this all up with after-sales service.

WHAT'S IN FAVOUR WITH INVESTORS TODAY

In terms of investor appetite, sensible, theme-based equities are finding favour with clients whereas more traditional funds are struggling. "We have seen a general reduction in allocations towards global active equities, particularly impacting expensive, more benchmark-oriented portfolios or developed market funds," explains Levin.

Instead, he is now seeing demand migrate towards more niche segments.

"Strategies that reflect what people see as the major thematic trends in the markets today, and in particular areas like robotics and security, have been very hot topics for us [at Credit Suisse Asset Management]," he adds. ■

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