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How to deliver performance

Wealth managers and investors alike have been enjoying the fruits of positive markets in recent months. To position portfolios for the rest of the year, product specialists suggest how advisers can help guide their clients.

Panel speakers

- ***Akshay Prasad,*** *Managing Director, Head, Structured Products Asia, Global Products and Solutions, Deutsche Bank Wealth Management*
- ***Roger Meier,*** *Executive Director, Head of Structured Products Advisory, Asia, Bank Julius Baer*
- ***Emmanuel Guillaume,*** *Director, Structured Products, UBP*
- ***Rohit Jaisingh,*** *Head, Equity and Commodity Investment Products, DBS Bank*
- ***Mathieu Perfetti,*** *Director, Head of Private Equity Asia, Indosuez Wealth Management*

After a very busy start to the year for banks in terms of structured products volume, there doesn't seem to be anything on the horizon to suggest this will change soon.

This was a key take-away from speakers at the annual flagship Hubbis Investment Solutions Forum in Singapore in June.

In fact, 43% of poll respondents said they believe structured products volumes will be higher in the second half of the year.

Yet this is tough to predict. Yield enhancement is getting increasingly challenging to design with higher strikes and lower yields. Plus, betting on market direction is increasingly challenging due to stretched valuations and geopolitical concerns.

Some of the best ways to deliver performance include actively-managed certificates (AMCs), say product specialists.

Fund-linked derivatives can enable investors to achieve a lower risk rating and higher leverage value.

They achieve potentially a higher return on capital – which could be as high as 45% per annum, based on historical returns of the funds.

Bonus enhancements offer a good trade-off and are not so sensitive to volatility – some of the yield can be used to embed some downside protection.

A market correction, if it happens, would offer opportunities. If not, specific sectors and correlation plays can be looked at.

Akshay Prasad
Deutsche Bank Wealth Management

hubbis

RISK-ON STILL

The activity and performance in the first few months of 2017 has resulted in clients seeming to be pretty relaxed about their risk.

The consensus is that the mood is still one of risk-on / economic expansion cycle with improved fundamentals – with hardly a need for downside protection despite expensive valuations.

Even the principal-protected note (PPN) on funds is not so much about downside protection; it is more about additional upside plus still getting LTV on the note.

At the same time, reward expectations are also lower, both in equity and fixed income.

From a structured products point of view, a lot of the focus is on equities and fixed income. There are more notes than OTC, given that volumes are generally too low for single underlyings.

Roger Meier
Bank Julius Baer

43%
Poll respondents who said they believe structured products volumes will be higher in the second half of the year (than in the first quarter of 2017)

There has also been some recent appetite in funds due to some optics/value in interest rates, with some tactical trades on FX and rates.

PRODUCT DEVELOPMENT

From a product development perspective, banks say they are looking to market products with recurring fees for bad times.

In general, the challenges of a low volatility, high correlation environment have led to a moderating down of yield expectations.

To enable investors to be creative in generating yield, practitioners say they are seeing slightly longer tenors to achieve certain yields. Bond portfolios are being actively managed by portfolio managers as it gets harder and harder to find value.

Call warrants linked to funds might also offer investors an opportunity, with returns like 4% to 4.5% per annum.

Emmanuel Guillaume
UBP

These are also interesting on a leveraged basis, say practitioners, ensuring that you don't have too much capital exposed to it. Principal protected structured pay-offs like Himalayans and best-of will become viable when rates move higher, add practitioners.

In general, practitioners say that the scope of products already available in the market is more than sufficient, but somehow under-utilised. The industry is not in need of additional innovation, but rather must educate clients with the existing possibilities.

The key needs to be optimising a given market view and/or a specific client need.

Rohit Jaisingh
DBS Bank

96%
Poll respondents who said Asian clients should look for principal protection, not leverage, for the rest of 2017

In addition, a key value-add of structured products is to identify, whenever possible, technical market opportunities in the hidden asset classes, such as volatility, dividends, borrowing, forwards, term structure, funding and correlation.

TAKING AN ALTERNATIVE VIEW

In terms of private equity, a large appetite has developed in Asia for such investments, given the hunt for superior returns over the longer term. Here, in-depth due diligence is key to delivering over-performance. To achieve attractive returns, there is a need to build-up diversified portfolios of top-quartile performing investments.

Current challenges relating to the asset class stem from a mix of competition and company valuations at acquisition.

However, in such low-rate environment, private equity is potentially more favourable than private debt – in the context of expected returns versus liquidity.

In particular, attractive opportunities exist across Asia as the decelerating growth trend provides interesting investments for private equity funds. Co-investment is also an interesting investment tool to optimise returns. Diversification is a pre-requisite. ■

Mathieu Perfetti
Indosuez Wealth Management