How to keep the product proposition simple

In a complex world, wealth managers should stick to what they know best if they want to ensure a long-term, sustainable business, especially when it comes to the product offering, says Ranjiv Raman of Cazenove Capital Management.

Keep it simple; that's the advice from Ranjiv Raman, head of investments and treasury at Cazenove Capital Management, for wealth managers looking to achieve profitability and sustainable operations in an increasingly-tough market environment.

"Sticking to what you do best and keeping it simple is the way to go," he explains. "In a world that is getting quite complex, people are constantly coming up with new ways to make money. But what they don't realise is that clients are getting a bit tired about hearing the same thing dressed up in different ways."

Moreover, tighter regulations to encourage more transparent reporting of assets are also putting a dampener on the viability of financial engineering.

"We confine ourselves to the areas in which we know we can deliver," says the Singapore-based investment specialist. "One of those areas is discretionary portfolio management (DPM)."

This is instead of structuring a leveraged portfolio that can potentially deliver an enhanced yield of 10%, for instance – which is not Cazenove's expertise.

MORE MEANINGFUL

Indeed, DPM is a core offering for Cazenove, which the wealth management business of Schroders.

In Asia, it does this as well as advisory services, charity fund management, and banking and treasury services.

On the discretionary side, the firm is not greedy, but rather more realistic about the share of wallet it is likely to get.

For example, out of a typical USD10 million HNW portfolio, of the half which is not sitting with one of the large Swiss private banks, a relatively smaller but specialised boutique bank like Cazenove might expect to get around USD2 million under a discretionary mandate. "But that USD2 million tends to be more sticky, as opposed to the USD5 million

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which can come in and go out more easily," Raman points out.

Not having a product-centric approach also helps, he adds. "We don't sell products. We only buy them on behalf of our clients as part of managing their money in their best interest."

This marries with the approach more fundamentally of Schroders. "It is a family-owned business," explains Raman. "As a conservative manager that manages over cycles, Schroders doesn't raise money and invest in something in a hurry, and therefore endanger what it stands for."

The approach involves a mix of both process and technology, working in a complementary way.

"Technology helps the process work more efficiently, but it can't replace a process."

While it also cannot replace the need for human engagement with clients, what it can do, he explains, is create certain points of differentiation for wealth managers.

"It provides a powerful way of screening companies and funds, for example. For us, we see the future as being technology-driven."

"Essentially, we want to give clients the same experience wherever they are in the world."

BUILDING BLOCKS

Cazenove has also structured its investment process to follow what Raman describes as a "building block" approach.

"Essentially, we want to give clients the same experience wherever they are in the world," he explains.

"So, for instance, if you were to walk into our offices in London, Hong Kong or Singapore, you would see the same investment process in action. If you wanted to construct a fund of funds portfolio or a segregated equity mandate, you draw on the expertise of the same investment process and the views are aligned."

As a practical example of this, Cazenove has introduced a more trading-oriented portfolio solution, which Raman says has appeal in the current landscape.

"It started off as advisory and then there was enough demand from clients, so we are now offering it as a top-20 best ideas solution," he explains.

The aim of this more actively managed approach is to take advantage of today's trading environment while maintaining a core portfolio that could be a more balanced mandate.

"For example, financials have gone up, while technology stocks sold off after Trump's victory. That presents an entry point, and investors can trade at that attractive level," he points out.

A PUSH FOR PASSIVE

More broadly, Raman's desire for simplification in the product offering is perhaps reflected by the trend towards more passive investments in Asia.

"We find that the use of passives is increasing. If you want a mid-cap or some form of asset tilt, ETFs have done a good job of taking away the need for more complexity," explains Raman.

Gone are the days when investors pack active funds into their core portfolios and use ETFs as a tactical element. Increasingly nowadays, it's a mix of both, he says.

In line with this, with clients becoming more aware of total expense ratios (TERs), a good way or product providers to compete is to lower TERs.

And this is where low-cost passives are helping product specialists like Raman deliver better value to clients.

Not chasing the latest investment fad is another way of delivering value. "One of my priorities is to keep away from consensus trades, which are dangerous," he says.

For example, he says many investors are gung-ho at the moment about the fact that inflation is going to be extreme as central banks become aggressive about raising interest rates.

Yet the world is still inherently deflationary, because most central banks are still printing money or facing deflation, barring the US. ■