Interesting & Relevant Investment Ideas for Asia's HNW Investors

A panel of experts offered delegates at the Hubbis Independent Wealth Management Forum a host of investment ideas, ranging from gold to wine, to multi-asset strategies, to commercial real estate, to Chinese ETFs and plenty more. Although mainstream financial markets began 2019 in a more robust mood than the problematic 2018, there is plenty of caution around and many mainstream valuations, for example, US equities, are generally strained.

These were the topics discussed:

- *What is the rationale and outlook for multi-asset strategies as volatility and market uncertainty increases?*
- *Are there any thematic, or more secular equity ideas that are poised to do well, such as a sharp focus on the environment and climate change?*
- *Is gold more in demand today and what role should it play in a client portfolio?*
- *Physical gold, or paper gold?*
- *The search for income.*
- *Are HNW clients increasing their engagement of ETFs?*
- *China in 2019? How best to play that market?*
- *What is appealing in the fixed income and credit universe today?*
- *Views on the global equity markets*
- *Opportunities in commercial real estate for Asia's investors seeking a broader, more diversified portfolio.*
- *Is wine an asset class? Understanding the key dynamics of wine investing.*
- *Blockchain technologies and the impact on investment markets. Can real estate be made more liquid and more accessible through digitalisation?*

PANEL SPEAKERS

- **Mehak Dua**, Business Development, GMO
- **Eugene Lau**, Vice President, Business Development, Singapore & Southeast Asia, Legg Mason Global Asset Management
- **Sam Mudie**, Singapore General Manager, Cult Wines
- **Alain Groshens**, Co-Founder & CEO, SystematicEdge
- **Leonard Chinchay**, VP of Client Relations, Prodigy Network
- **George Nast**, Chief Strategist, RealFuel, Investacrowd
- **Tony Wong**, Head of Wealth Solutions, Sales & Product Strategy, CSOP Asset Management
- **Christophe Numa**, Director, Bunker Gold&Silver

Link to Content Summary page
Link to Photos
Link to Event Homepage

hubbis

THE KEY TAKEAWAYS

Managing risks in a volatile world

There are plenty of opportunities around the world to identify value, for example the Chinese equity market and the European fixed income market. But risks must be managed and hedged on a per-sector basis as well as on a global basis, because when the US sneezes the whole world can catch a heavy cold.

Multi-asset mitigates volatility

A multi-asset approach, including alternative instruments, along with risk management and a focus on the Sharpe ratio to achieve risk-adjusted returns will offset the volatility of individual markets, which have different levels of volatility.

Reversion to fair value

Bubbles come and go, valuations fluctuate but over time, according to one expert, there is almost always a reversion to fair value. If you buy assets that are very attractively priced you are never overpaying for something, he advised, so ultimately when the reversion to fair value happens you will make money. That is how, over time, investors compounded wealth.

Climate change opens new doors

Gaining exposure to listed equities in the climate change sector, companies that are going to benefit as the world moves towards mitigating and trying to adapt to climate change is a really smart way to make money, according to one panellist.

Life is too short to invest in bad wine

An expert maintained that any wise HNW investor should have as much as 5% invested in fine wines. Wine is a tangible asset class that appreciates over time, that is limited in supply in the top wine regions of the world, and that gets better over time. There is a very low correlation to the equity market, it is strong as a defensive asset class. There is a mature market in wine investing, storage and distribution and if money is no object, then some, or all, can be enjoyed!

Digitalisation of property

The vastUSD19 trillion commercial real estate and the USD5 trillion real estate fund markets can be made dramatically more liquid and efficient by the adoption of the blockchain, or distributed ledger. Currently, it is highly cumbersome to buy and settle such assets, whereas the offering of some of those assets as digital currencies will radically change the market dynamics, according to one panellist whose firm has been marketing such an issue here in Asia, based on a real estate fund from the United States. The idea is to use this underlying technology essentially to deliver and improve the way people can invest in private assets using the underlying distributed ledger technology and even more importantly creating liquidity.

Chinese ETFs appeal

China's A-share market has taken a leap forward with the inclusion by MSCI of the A-shares in the emerging markets indices as of March 1, boosting foreign demand. The low valuations and compelling liquidity evolution mean A-share ETFs are increasingly appealing. Moreover, China's persona and national fiscal enhancements are very supportive.

Gold glitters

Gold is first a currency, one panellist observed, "that helps preserve wealth. The only questions are how much of a percentage should HNW investors hold in gold and what is the right balance between paper and physical gold."

Real estate redevelopment in blue chip locations

The discussion turned towards real estate, with a guest explaining that his company currently has around USD1 billion of real estate development projects underway in the US in several different developments. The firm is enjoying success in Asia, promoting its products with different distributors or different strategic partners in the region. Typical investments might be in the range of USD500,000 to USD1 million and suitable for NHWIs, and family offices.

Take a look at Europe

Credit spreads in Europe are very appealing, as the sector as a whole is under-invested. Moreover, with adept use of the swaps markets, investors can achieve even higher returns in US dollars or Singapore dollars.

Asian local currency

An expert also highlighted the appeal of Asian high yield, especially local currency bonds that can achieve 5% to 7% on the coupon alone. As the bonds are generally weak after last year's market turmoil, the current valuations offer the opportunity for capital appreciation as well.

GEORGE NAST
InvestaCrowd

THE DISCUSSION BEGAN WITH A PANELLIST highlighting the appeals of multi-asset investing, remarking that there are a lot of opportunities in investing across all the asset class.

"We are income and value driven, so we scan the asset classes, the sectors and the regions in order to find the opportunity," an expert explained. "The Chinese market has excellent fundamentals, and trades at a discount. The fixed income European market has a very high yield. But, how do you manage the risks? You could be invested because of the fundamentals but you need to hedge the downside because of the negative market risk sentiment. It's actually very important to stay invested because since the beginning of the year you saw a rally, when in fact the fundamentals are less good this year with growth declining and the different risk. Nevertheless, market risk sentiment was very positive since the beginning of the year and the market surged about 12%. Stay invested. But hedge the downside. For example, while we believe the Chinese market is a great opportunity in terms of value added income, the leading market of the world is still the US market. So, we believe it's absolutely key to have some type of protection in case there is a sell-off of the American market because that would create a global risk-off sentiment and all the assets may be positively correlated on the downside. That is why it's important to have of course a micro hedge on the assets in each sector, and also a global hedge."

CHRISTOPHE NUMA
Bunker Gold & Silver

SAM MUDIE
Cult Wines

Another guest highlighted volatility. "A fixed income portfolio would see investment grade volatility at around 2% to 4% annum, while high yield will generate 3% to 6% standard deviation," he reported. "A pure equity fund would be volatility of between 10% to 15%. The sweet spot therefore lies in a multi-asset approach, including alternative instruments, along with risk management and a focus on the Sharpe ratio to achieve risk-adjusted returns."

Reversion to fair value

"Yes," added another expert, "we in fact began multi-asset back in 1998, long before it became fashionable in the past five to 10 years. One of our founders has a reputation as being able to spot the bubbles, for example Japan in the late 1980s, the tech bubble in 1980s and our firm as a whole is very well known for what we call our seven-year asset core class. Each month, for at least 40 asset classes we will go back and see how expensive or cheap they are, and then we will design multi-asset portfolios based on the idea that everything has a fair value, and everything always may also revert to fair value, you just have to hold it long enough. Because we are a private partnership, we have the ability to take contrarian views and stand by them much longer than many of our peers. If you buy assets that are very attractively priced you are never overpaying for something, so ultimately with the reversion to fair value happens you will make money. That is how, over time, we have compounded wealth for our clients."

Climate changes offer value plays

The same expert also highlighted climate change anxieties as crucially important. "Gaining exposure to listed equities in the climate change sector, companies that are going to benefit as the world moves towards mitigating and trying to adapt to climate change is a really smart way to make money," he reported. "It offer diversification from traditional equities and there is also inflation protection in real assets in sectors such as clean energy, solar, wind power, the smart grid, agriculture, water. We will never buy names like Tesla, or BWC in China, they are really expensive, but we do play electric vehicles through the materials that go into making electric vehicles, so cobalt, nickel. It all comes back to valuation investing."

ALAIN GROSHENS
SystematicEdge

The discussion took a significant turn as one expert focused on wine investments. "Passion asset classes might account for perhaps 5% of a high net worth total portfolio," he commented. "Wine is a tangible asset class that is limited not just by the physical size, but how much we produce, as it is actually protected by legislation in order to protect the land. As it is drunk, there is also decreasing availability. Yet we have got one of the few asset classes which improves in quality over time. So, keep the wine for five, 10, 20, 30 years, and it improves. We provide the end to end service, advice on what to be buying, we look after the full storage, insurance, active management, through to the eventual sale. There is a very low correlation to the equity market, it is strong as a defensive asset class."

Turning to another alternative investment idea, a guest highlighted the technologies behind the development of digital assets. "We focus underlying technology known as blockchain or

distributed ledger technology. People might think that securities trading is quite digital, but there is actually a very cumbersome process behind that, and in many ways, we are still facing long periods of settlement time, a lot of legal aspects."

Digitising real estate

He explained that his firm is therefore looking at private market real estate of USD19 trillion commercial real estate and USD5 trillion in funds. We are looking at that particular space," he explained, "and taking our private real estate assets and offering them as digital securities offerings to investors. It is a brand-new space. We are right now marketing an issue here in Asia, based on a real estate fund from the United States and the idea is to use this underlying technology essentially to deliver and improve the way people can invest in private assets using the underlying distributed ledger technology and even more importantly is creating liquidity. For those of you who pull your clients into private equity assets, private real estate assets, liquidity is often very poor and settlement is often very slow for a secondary trade."

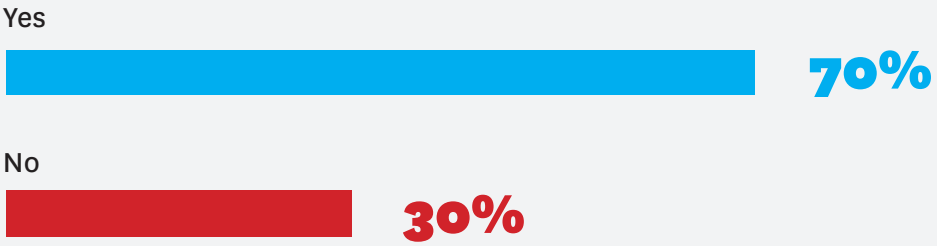
The idea with digital assets, therefore, he reported, is to reduce to an instant the trade in the secondary market because the technology which takes legal contracts associated with the security are actually embedded in the digital assets. "That's the beauty of it," he commented. "It allows real improvement in the underlying liquidity of private assets and that actually we believe can also really change the asset management industry in private equity and private funds."

He expounded further by noting that a typical private fund will look to liquidate its assets after five to seven years to try and get a full exit and the funds returned to investors in a roughly seven to 10-year timeframe. "If you were to offer your investors a credible secondary trading opportunity before that, you can actually manage your assets to a much longer time horizon and in real estate that's particularly important," he observed, "as real estate is inherently very long-dated assets. Accordingly, we hope that this is the start of the trend particularly here in Asia and that we can see the growth of these types of digital securities offerings."

China...via ETFs

Moving on to the ETF space, another panellist highlighted how investors are more open-minded to considering ETFs. "We were bearish [on China] last year," he reported, "but we changed our view in Q4 last year to launch China A. The data is supportive on the fundamentals, but market sentiment hasn't picked up a lot. There are fiscal adjustments for personal tax in China, there is stimulus, there is the MSCI inclusion as of March 1 into emerging markets, boosting foreign investor participation in China. Our China-focused ETFs have also attracted a lot of inflows since early this year."

Another expert focused on gold. "Gold is first a currency," he observed, "not just a base metal, but a currency and people invest in it to preserve the value of their cash. The question is how much



Source: Independent Wealth Management Forum 2019 - Singapore

wealthy investors should allocate to gold. Usually we are about 10% to 20% in both physical and paper gold, for example mining stocks. Silver is also a good asset with good value to offer."

Gold's appeals

Paper gold, he noted, especially gold ETFs, replicate some of the performance of gold but the investors do not own the gold physically. "If you really want to preserve the value and to be sure about being able to sell your gold in so many years," he advised, "you should invest in the physical gold."

"YOU SHOULD INVEST IN THE PHYSICAL GOLD."

The discussion turned towards real estate, with a guest explaining that his company currently has around USD1 billion of real estate development projects underway in the US in several different developments. The preferred structure is to fund with 50% of the financing coming from major US banks and the other 50% as equity.

"Of the equity portion," he explained, "we ourselves as general partners bring about 10% to 20% and we source the other 80% to 90% through our network of retail and institutional investors. We have been very successful in raising more than USD650 million from about 6500 investors so far in 42 different countries and 27 different states in the US.

Playing the US commercial property market

The portfolio consists of different properties in New York and Chicago. And focuses on co-living, co-working offices, hotels and extended stay properties. The firm is enjoying success in Asia, promoting its products with different distributors or different strategic partners in the region."

"We bring this to the table for either the high net worth individual or family or multifamily offices," he reported. "Our business model is basically bringing an alternative investment to the small investors between USD500000 and USD1 million and who are seeking some asset diversification."

LEONARD CHINCHAY
Prodigy Network

TONY WONG
CSOP Asset Management

He then gave the example on one project, a student housing building the firm bought in the New York financial district, two blocks away from Wall Street back in October 2013 for USD58 million. Today it is a professionally managed extended stay property, which opened in June 2016, the total cost including refurbishment was USD128 million and there is a valuation from a leading firm of USD190 million today.

Europe: out of favour, but plenty of value on offer

Another expert highlighted two core opportunities his firm is promoting currently. The first is credit. "Europe is the most uninvested market in the world," he reported, "so the credit spreads in Europe are

extremely wide, representing opportunity. Secondly, for corporate credit in Europe, rates are negative in the Eurozone at least, so balancing is easier for corporations and the default risk is going down, while realised defaults are really falling in Europe. Central banks around the world and in Europe in particular appear set to keep interest rates extremely low, negative and [the ECB] is even injecting liquidity throughout Europe, there are long-term rebalancing operations and the banks are obviously distributing this cash into the system, so you end up with relatively good credit with very large spreads, for example on corporate paper of 4% to 5%."

And there is plenty of opportunity for dividend yield in different regions, the US being the lower end at 2% or less, Europe the higher end at 4% or more and Asia in the middle at 3% to 4%. He added that investors in Asia can buy the Europe funds and hedge US dollar or Singapore dollars to achieve a 2% to 3% interest rate. "If you look at a lot of those European equity dividend funds that you can find here in Singapore from the big name providers, you will notice that the dividend yield of such of our products will end up at about 6% to 7% in Singapore dollar terms, so that is one attractive solution that you can consider if you are looking for income.

He also highlighted the appeal of Asian high yield, especially local currency bonds that can achieve 5% to 7% on the coupon alone, and the bonds are generally weak after last year, with current valuations offering the opportunity for capital appreciation as well. ■

EUGENE LAU
Legg Mason Global Asset Management

MEHAK DUA
GMO