Investment Advice in Asia – The Need for Better Ideas and Better Strategies

Whatever new dawn is ahead for the world economy, for businesses, for investors and even for the daily lives we have long taken for granted, the world is not the same as it was earlier in 2020. For some ten years prior to the arrival of Covid-19, the world's financial markets were, for the most part, performing well and with few major negative impediments to further expansion. But the new world we are in today requires a whole new set of criteria to help advisors and investors assess the assets into which they invest. The curation of the best investment research and strategies, of the optimal asset allocation policies, and advice on timing and risk management have never been more vital than they are today. In conjunction with our exclusive partner for this project, The Global CIO Office, Hubbis sought the views of the Asian wealth management community on their needs in terms of data, research and investment strategies for their private clients. To do so, we created a mini-survey titled 'Investment Advice in Asia', and we offer this brief overview and snapshot of their needs, their expectations and their perspectives.

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We all know that high-quality investment advice and product platforms can be expensive to assemble, but we also know that any successful wealth advisory and execution business needs quality investment proposals, regular reports to share with clients, research on investment themes, high-quality strategic asset allocation and inputs on tactical asset allocation, no matter their scale. And independence of thought and action are also vital prerequisites.

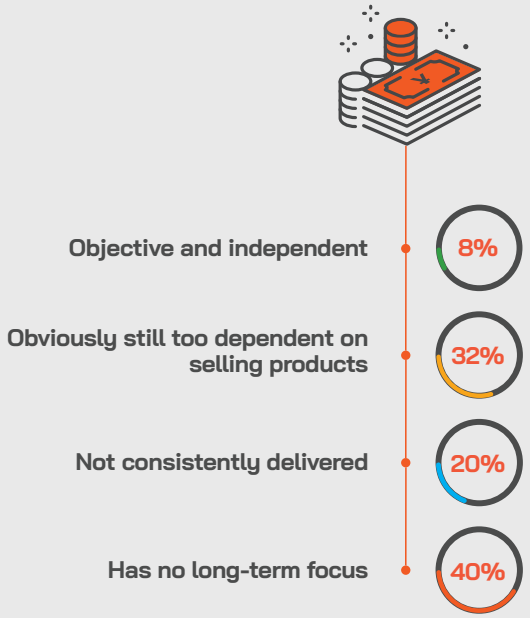
The mission must therefore be to help Asia's WM firms – and therefore their end clients - curate the very best advice on product selection from mutual funds, to structured products, through to alternatives such as real estate and private equity and private debt.

And independence of thought and vision and product is an essential part of that. This, of course, is especially important for the smaller to medium-sized IAMs and MFOs and SFOs, many of which need significant research support, for example offering views of certain asset classes. These entities are also likely to require discretionary fund management for global and other mandates.

Better and more consistent delivery of ideas and investment proposals are also especially vital in times such as today when there is a pervasive emotion of fear and uncertainty. Indeed, there is even uncertainty about basics, such as whether the world is heading towards deflation or inflation. In short, the many premises of the bull market years are now up in the air. How do clients position their savings and investments for the future, and can they obtain more institutional and professional levels of research, selection and advice to help them manage their wealth in the world ahead of us all?

Only 8% of replies indicated that the investment advice available in the Asian WM market is independent, and 32% said they believe that there remains too much of a product-pushing mentality. Moreover, 40% worry that the advice does not have a sufficiently long-term focus and 20% are concerned there is an inconsistency of delivery.

HOW WOULD YOU CHARACTERISE THE INVESTMENT ADVICE DELIVERED IN PRIVATE WEALTH MANAGEMENT IN ASIA?



In this environment where there is little or no clarity on the future, information, judgement, and a careful approach are all essential. Whether the WM firm is an independent, or a private bank, or family office, they are all adjusting as rapidly and smartly as they can, hence the more information and support they have to help their clients invest strategically and conservatively, the better.

The reality of the past decade since markets and sentiment began to recover from the post-GFC gloom, is that a rising tide has floated almost all boats. However, in the world we now inhabit, there is a far greater differentiation between the winners and the losers. In this situation, it has become far more critical to focus on risk appetite and risk exposure, to re-think asset allocation, and for the wealth management community to reconsider how to communicate and engage with clients for their investments and portfolio management.

Yes, there has been an incredible boom in some stocks since the recovery began in April. Yes, people have made money with little or

no knowledge of the underlying stocks, other than their names and learning how to jump on the momentum express.

But no, this is not likely to continue, at some time there will be greater rationality in the markets, and a true focus on how to derive true alpha, whilst the concept of beta has potentially more pitfalls going forward. In that environment, investors and of course those who help or advise them will see ever more clearly the need to differentiate between who is going to survive and prosper in the new world and who will struggle or fail.

Accordingly, it appears that the WM community is already seeing a shift towards managed investments. Relationship managers (RMs) and wealth management leaders, therefore, need to be having more discussions that delve into the real meat of how HNWIs and ultra-wealthy investors should invest, not using the old thinking, but seeing a new reality in the markets and assets classes. And to achieve that, they increasingly need support, especially if they are from the independent asset management community of IAMs/EAMs and MFOs, which of course have far less resource than the international private banks.

In the more clement market conditions, it is almost impossible to persuade a client to build in greater portfolio resilience, as investors baulk at paying up for downside protection, but the reality is that those defences need to be in there, in good and bad conditions.

And that means far better approaches to portfolio assembly are required, and a far more professional approach to risk and risk management by the WM community, which has historically been rather weak in this area. If clients had a better understanding of different outcomes under different scenarios, and with different asset allocation models, they would be in stronger positions with their clients.

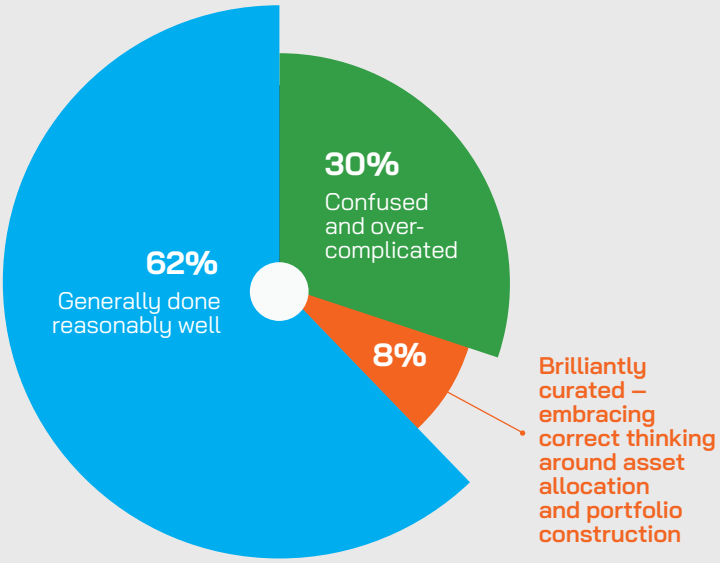
And this is even more vital as there remains in many areas of the financial markets a big disconnect between the real-world economy and valuations and sentiment. Accordingly, private clients in Asia will require a lot of information on the risk exposures for various asset classes and will likely seek more active management and constant updates from their advisors. As the focus now should be back on long-term goals, most clients will require constant feeding of information, and a formulation of their portfolio being adapted into the 'new normal' environment.

After the global financial crisis, discretionary portfolio management in Asia went from a roughly 2% penetration to about 10%; although that is nothing today compared to Europe or North America yet, it is a remarkable growth. This crisis will, very probably, trigger the second wave of growth for discretionary and advisory, as realistically, it is so much better to have other people manage these investments professionally.

But even for those private clients who remain reluctant to embrace

There is some hope evidently that matters are improving, as 70% of replies indicated that private client portfolios in Asia are reasonably well assembled, and some of them really well-devised and executed. But of course, there is always room for improvement, and 30% of respondents feel that these portfolios could be better designed.

HOW WOULD YOU CHARACTERISE THE TYPICAL HNW/UHNW CLIENT PORTFOLIO IN ASIA?



DPM or fee-paying advisory, they will appreciate more discussions and adherence around strategic portfolio allocation, and will be more attuned if they feel safe in the knowledge that this advice is independent and driven by best-in-class ideas and far greater relevance to them as individuals and families. And that in turn should lead to more who will be willing to pay for independent and good quality advise wherein each client portfolio is managed in accordance with his/her risk profile and requirements.

There is also no doubt that the dramatic bounce in markets and individual stocks since April will have somewhat clouded the more existential question on the role of the RM and the advisory community, thereby allowing private clients to some extent to sweep the bigger picture questions under the rug. However, looking ahead, they will certainly need to think more rigorously about objectivity, quality, portfolio resilience, DPM, and the professionalisation of the overall approach to HNW and UHNW investing.

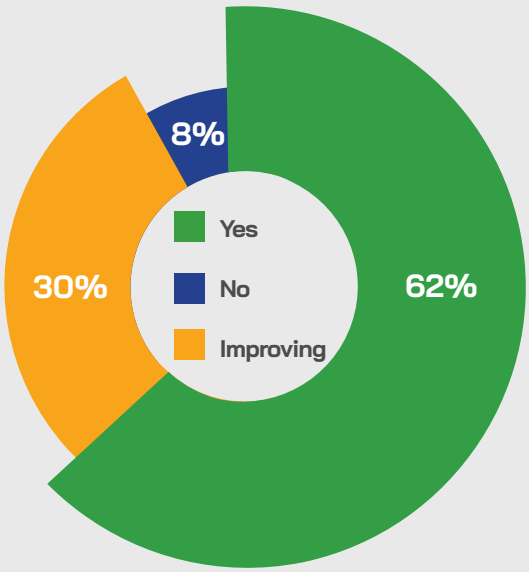
Accordingly, the WM community needs to elevate the dialogues to levels more often seen in private wealth management in Europe. The family offices and the UHNWIs might have dedicated professionals who really focus on these conversations, but the typical HNWIs remain more transactional, and the RMs more often need to be elevating the discussions, as well as ensuring their availability and keep lines of engagement open.

Very clearly, constant communication between RMs and clients must be attained, as information and insights are even more vital in a

Clearly, the replies we received to the first question above indicate that external research delivering the most objectivity and the best ideas and products is increasingly vital to the quality of service that they as WM firms can offer their end clients. Moreover, it is very clear that the Asian WM market in general has been too focused on revenue generation and, while that is evidently improving, it is worrisome that 62% of replies have concerns still about this, which is essentially a fundamental flaw for the industry.

WHEN DELIVERING 'INDEPENDENT' ADVICE, WHAT SHOULD BE THE MAIN INPUTS?

IS PRIVATE WEALTH MANAGEMENT IN ASIA STILL TOO FOCUSSED ON GENERATING REVENUE AND NOT ON DELIVERING THE BEST INVESTMENT OUTCOMES TO CLIENTS?



market that will see an increasingly divergent performance. Many therefore anticipate a better long-term alignment of portfolios with clients' longer-term financial goals. They see reduced leverage except in a smaller speculative portion of their portfolios. The private clients clearly and visibly want more support to identify those industries and companies most likely to adapt to the 'new norm' ahead of us all, whatever that is.

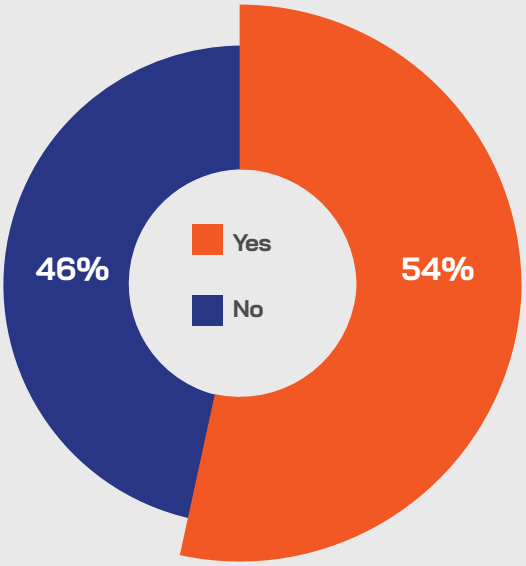
There will be the concomitant greater effort to obtain and disseminate information about the market and the impact on the asset classes, as well as the calibre of the asset managers. Clients will need constant updates from the fund managers on changes, or changes in management style and market outlook. This information should be constantly disseminated to investors, where it is applicable, and discussions more closely aligned with the interests of those investors. In a nutshell, more work needs to be done, but we must ensure we keep the relationships strong and keep the emotions at bay.

Genuinely open architecture is today completely within the reach of the IAMs. The independent model thrives on its adherence to the concept of objectivity, so access to the larger, rapidly expanding digital and online execution platforms in the market is increasingly appealing to the IAMs, as those platforms offer both open architecture and well-designed, high-quality user experiences, which then of course feeds through to the IAMs' end clients themselves.

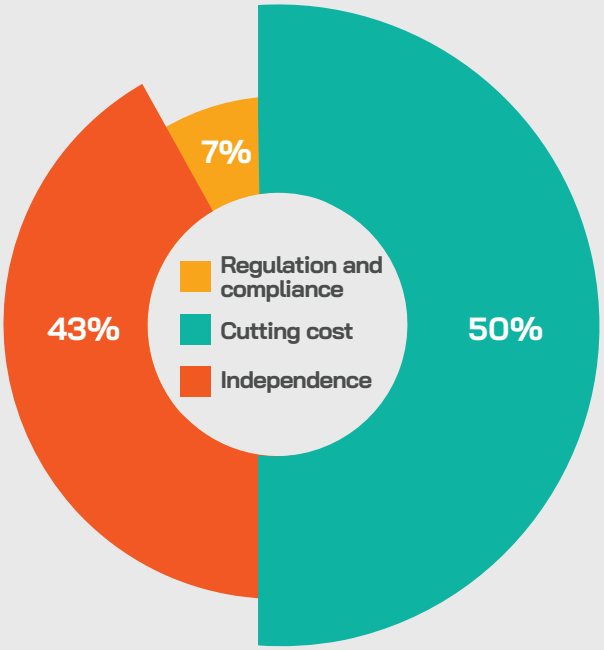
The segmentation approach towards clients in different wealth categories and geographies by

The majority of replies to the first question above anticipate greater outsourcing or investment advice, research and idea generation, portfolio allocation strategies and so forth, and clearly from the replies to the second question, cost and independence are the two key drivers.

DO YOU THINK THAT PRIVATE WEALTH MANAGEMENT FIRMS IN ASIA – ESPECIALLY MFOS AND IAMS/EAMS WILL INCREASINGLY OUTSOURCE PART OR ALL OF THEIR INVESTMENT CAPABILITY?



IF THERE WAS AN INCREASE IN OUTSOURCING 'INVESTMENT ADVICE' WHAT WOULD BE THE MAIN DRIVER?



many of the banks can be frustrating for the bankers, whereas the IAM model offers the RMs joining the IAMs a much more entrepreneurial approach and less formalised way of conducting their business. The mission is to offer a discrete and tailored service and institutional level advice and execution at every turn possible for the HNW and UHNW clients, essentially most individuals or families generally with investible assets of USD3 million and above. Clearly, there is more to do for the UHNW clients, but the model is generally the same throughout.

The IAM model is not driven by the brand on the card; it is driven by individuals and service. To achieve this, the IAMs must be able to deliver the best advice and solutions from within their ecosystem of friends and partners, for example pulling in different experts for wealth planning, for consolidation of assets, for different types of assets, for legal matters, tax advice, accounting, investment migration and so forth. The best of breed mentality must dominate at all times.

As discussed above, high-quality investment advice and product platforms can be expensive to assemble, so the door is already very much ajar to the provision of such research and CIO-type services. The question many of Asia's independent firms must therefore be asking themselves is how they can procure and deliver the very best advice with as great an independence of thought and vision and product as possible. To imagine achieving this in-house is really a stretch of the imagination at any time, let alone in such challenging times.

To have a service or facility where the firms are fed detailed insights into markets, sentiment, and opportunities is immensely valuable. For example, right now, there is a raging debate on whether the global economy will recover as quickly as perhaps the markets have anticipated. There are many who argue that we are still in a false bubble of hope, as markets power forward with the belief that the V-shaped recovery will maintain a strong grip. However, there are many other difficulties ahead, not least as to how the world's leading governments and the central banks can ever get to grips with the vast and ever-growing national debts. Moreover, trade conflicts, protectionism, geopolitics and potential social unrest on a vast scale loom ahead, threateningly.

Inflation remains low and likely will for some time, but the unprecedented global monetary and fiscal responses to combat the economic damage of Covid-19 and potential supply chain constraints could lead to a less benign inflation environment. GDP growth most certainly is not stable and will remain susceptible to a wide range of outcomes until the health situation improves globally. Finally, profitability has been hit for even the strongest companies in the current recession. These conditions make many fundamental players very nervous, especially as current investor behaviour remains, in their eyes, rather illogical and excessively hopeful.

Many therefore argue that with uncertainty in such abundance, investors should demand to see reasonably priced assets in order to want to take risk. But that is generally not the case in the main markets, except in traditional

value stocks, and selectively in the world of EM. However, some sectors, segments and markets that have under-performed the S&P500 for many years now offer some of the cheapest levels ever seen, and, if researched properly, provide some of the more extreme discounts to the broader markets asset managers have witnessed for a long, long time.

Value won out in the long 26-year spell from 1980 to 2006, but from 2007 to the present day, value has underperformed, especially in the US markets, trading at bigger and bigger discounts to the market.

Those wider discounts were not justified based on weaker fundamentals from value companies which 'undergrew' the market at their historical levels. Accordingly, just for value to again win out, value simply needs to stop getting cheaper, and does not require much of a reversal. Value's relative income benefit and rebalancing effect should continue to act as tailwinds.

In this environment, there is little doubt that product creators must therefore take a tactical approach to the market, to engender thought leadership discussions, and to help guide the advisors and end investors to strategic thinking about their future and tailor products that fit.

Even back in 2019, as markets were less certain than they had been for some years since the GFC, there was greater attention paid to investment led by the CIO view, and also more and more distributors began to reduce the number of fund houses they work with, preferring fewer strategic partners and then promoting their products and views. Indeed, the very specific needs of the end clients must be well understood both by the distributors and the product makers, in order to more directly customise solutions that fit the needs of Asia's HNWIs today, and tomorrow. To identify which are achieving this is immensely costly, immensely time-consuming.

Conclusion

The one certainty right now is that we are in an uncertain world, and likely to be for some time to come. Clients of the wealth management industry, whether discretionary, advisory or self-directed will seek and expect the highest quality of advice, underpinned by independent thought and vision.

In this survey, the Asian wealth management community has recognised the value that independent research can bring to clients, but many firms are considering how they can cost effectively procure this essential capability. The answer, according to the responses, may lie in accessing the research and CIO-type services available in outsourced investment services, such as those provided by The Global CIO Office and others.

Whichever route taken, the contributors to this survey acknowledge that now more than ever, the curation of **the best investment research and strategies, of the optimal asset allocation policies, and advice on timing and risk management have never been more vital than they are today.**

The Global CIO Office – A Brief Overview

High-profile veteran banker Gary Dugan and long-time financial markets expert Johan Jooste, Managing Director of The Global CIO Office, joined forces to launch The Global CIO Office in Singapore in the second half of 2019. Their mission is to provide outsourced investment ideas and research services to IAMs/EAMs and multi-family offices, as well as single-family offices.

Although now only little over one-year old, they are already in a very different global environment to that in which the firm was first imagined; however, they believe the premise for creating The Global CIO Office has been reinforced by the events of 2020 so far, and they are optimistic they will find an even more robust client demand as the world's asset markets are now set to demonstrate much greater divergence of performance than seen for many years past.

GARY DUGAN
The Global CIO Office

JOHAN JOOSTE
The Global CIO Office

By way of background, Dugan is CEO, and Johan Jooste is Managing Director. The GCIO Office brand operates under the umbrella of Purple Asset Management, which is owned by the UK's Fry Group and the Independent Strategy Group, who backed the pair as shareholders, offering both funding and resource.

The Global CIO team looks after HNW and UHNW ultra-wealthy segment mostly, building its clientele through the provision of high-grade outsourced Chief Investment Officer services for external asset managers and wealth management businesses. This encompasses both advisory and bespoke discretionary portfolio management, investment due diligence, strategic asset allocation and market and product advice and research.

The Global CIO Office has as its core mission the elevation of research, product selection and advisory to institutional levels for those smaller EAMs, or single- and multi-family offices that need to upgrade product selection, filter out better deals and boost the quality of advice for their end-clients, generally very wealthy global and Asian individuals or families.

The Global CIO Office aims to offer their services at a competitive level to the costs that would be borne if the entire investment function was taken in-house by a family office or small wealth manager. "We have done case studies for prospects where we have shown that we can potentially cut the overall costs of a firm's investment team by around 50%," remarked Dugan. However, he also caveats that the intention is not to necessarily to take over the entire investment function of the firms they speak to, rather to complement their key resources.

A source of price competitiveness is derived from the myriad of technological advances which are now available to the wealth management industry. For larger firms that lack the institutional nimbleness required to assimilate technology into workflow quickly, this is a threat. To smaller firms with leaner organisational structures, it is a great opportunity.

A further element favouring smaller entities is the lower headcount requirement to effect the same level of service. Smaller firms do not suffer from the requirement to be a "one-stop-shop", delivering a whole suite of services that can be expensive to maintain and deliver low margins.

The Global CIO looks to both these avenues for cost savings that are built into the pricing model, but without compromising on quality. Such an approach allows for the creation of a strong network of external providers for essential items such as risk and attribution reporting on client portfolios and the use of an expert network to assist in due diligence of specialised investment strategies, to name but two. The approach also allows for costs to be focused very clearly on the specific service being provided, allowing the GCIO to achieve a high degree of scalability.

As such, the firm's approach and its services are likely to see an even greater interest in the post-coronavirus world, as financial markets are no longer likely to be floating on a rising tide of optimism. Accordingly, cost effective research, analysis, and a more refined judgement are likely to be more rigorously sought and applied.

Whatever the precise lie of the land ahead, one of the firm's missions is to ensure institutional quality due diligence on private debt, private equity and VC. "There is a gap in the market for greater professionalisation of this segment and the heavy use of technology such as AI, as there is plenty of supply of opportunities, plenty of demand, so we must efficiently filter the best for the clients," Jooste explains. "There are limited resources for family offices and wealthy investors to rigorously assess and compare deals, so we want to be the go-to source of due diligence an independent advice. Often the only institutional advice is from the company promoting the deal."

Another priority is to broaden the firm's geographic horizons. "Singapore," he says, "is an excellent base from which to expand and offers an edge in terms of reputation and perceived quality, but we also recognise we want to build on our connections into Hong Kong, and the Middle East. Of course, this will have to wait for the virus to abate, but it is core to our vision of the future."

The third, somewhat more esoteric mission is to reshape asset allocation. "We have to re-think the whole approach," Jooste says. "After the global financial crisis and the collapse in government bond yields post-COVID, there was a lot of talk about the old portfolio approach being defunct, but not much changed in reality as a 10-year bull market ensued in most asset classes and policy makers bailed out – very effectively – financial markets, shielding investors from the worst effects of what might have been a severe stress test. New ideas emerged, such as smart beta and impact investing. Today, Jooste and Dugan see new horizons where illiquid assets are used more heavily in portfolios. It's quite possible that illiquid investments become over 50% of a UHNW portfolio. Such allocations will require deep bench-strength due diligence coupled with the use of technology. "We would like to be seen as go-to-resource for family offices to enhance their ability to cope with this emerging trend," said Dugan.

Dugan and Jooste continue to believe that their collective experience of markets remain an important resource for their clients to tap into. "We thought we had seen everything, but the global markets continue to evolve often in ways that we had expected some years ago," said Dugan. "Our experience allows us to control our emotions and deal with each challenge put in front of us for the benefit of the client." ■