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Investment Ideas and Themes

Ten-year Indonesian government bonds offer a yield approaching 9% while bank deposits offer around 4.5% for one-year money, and with the equity market trading at a PE of about 20 times and with plenty of political, financial and currency uncertainties at home, Indonesia's wealthy investors would do well to consider

These were the topics discussed:

- *How would you like to see the opportunity in Indonesia develop for you?*
- *What products do you feel would be most valuable to clients in Indonesia?*
- *How are regional wealth management firms improving their investment processes and platform?*
- *Global equity markets have seen a strong run. Does it still have legs? Or are we reaching a terminal stage? Where do you now turn to drive long-term returns for a portfolio?*
- *What alternative investments are there for HNW and UHNW clients and why are they relevant?*
- *What's the increasing role of Physical Gold?*
- *How do clients in Asia think about risk today?*
- *What have been some of the popular investment products sold this year?*
- *Opportunities of key market mega-trends of millennial, baby boomers, women empowerment, ESG, SRI. How are you capitalising on these?*

PANEL SPEAKERS

- **David Fergusson, Chairman, Global Precious Metals**
- **Olivier Robine, Managing Director, Head of Equity and Commodity-Asia, Commerzbank**
- **Shihan Abeyguna, Head of Business Development, South East Asia, Morningstar**
- **Joshua Rotbart, Managing Partner, J. Rotbart & Co**

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THE REPRESENTATIVE OF A LEADING RESEARCH firm started the discussion by noting that the firm's objective in Indonesia was to help improve the investment proposition, especially in the ETF arena, where there is great scope for market penetration. "Financial literacy," they said, "must also improve and we have worked to develop an investment curriculum that through our technology platform we can distribute through wealth management platforms of firms in the industry. Additionally, we have a team of around 50 behavioural scientists to help us and clients understand how to mitigate the biases that exist. Finally, we are looking at offshore asset products and seeing where we can help the country develop."

An expert highlighted the appeal of cryptocurrencies and gold and emphasised their key differences. "A cryptocurrency is a currency, a method of transfer and a stored value; there is advanced technology that underlies them. Gold is a very good currency but with no technology. The interesting thing for me will be when cryptocurrencies and gold eventually get together because only they offer an effective, realistic alternative to the government-sponsored fiat currencies. If somehow, we can combine the two, is some sort of marriage we might find we fundamentally alter the nature of global finance and the markets."

The hybridisation of cryptos and gold?

He expanded on this and said that there are more than 30 projects currently trying to produce

JOSHUA ROTBART
J. Rotbart & Co.

DAVID FERGUSSON
Global Precious Metals

cryptocurrency backed by physical gold. "None are very advanced yet but what unifies the investors is these are alternative investments outside the global financial system, which many people distrust. Take currencies, for example, the central bank in the US has doubled the supply."

"We are seeing increased activity in our field of structured products, structured funds, structured solutions, hybrid products within funds, so I can report there have been quite big changes over the last few years," one expert reported. "Over the last few years we have seen new products, for example, structured products on mutual funds have been successful as some kind of hybrid between mutual funds and structured notes."

Choose your funds wisely

"We see one notable trend we have identified through research," said another guest. "Our thrust is towards greater due diligence on funds, so we can identify whether the asset manager has a good reputation and whether the manager puts his or her own money in the fund because if they do we found that those funds perform better on average. Due diligence around the investment products and managers is essential as part of the optimal fund selection process for wealth management intermediaries."

"We have also been focusing on operational efficiency," they added. "Research is a very high fixed cost business and we find that as banks are increasingly looking to create more discretionary type offerings, they are hiring more strategists within their organisation and they are outsourcing the research piece to companies like us; they then couple those views with their in-house views and macro factors to provide a strategy for clients. Asset allocation models for discretionary management can also be enhanced and this is another area in which we have been working to help wealth management firms; we provide our capital market assumptions, we can create target risk type models and make modifications to it as the clients see fit."

Another panellist referred to perspective from an Indonesia viewpoint. "The global markets might be troubled," he said, "but here we have nice high deposit rates -Indonesia 10-year government bonds yielded around 8.85% in late October - so these types of opportunities take most of the money. Moreover, there are not so many other investment opportunities available, especially outside Indonesia or Rupiah-denominated assets, although we have seen gradual improvements, for example, Sharia-based products."

SHIHAN ABEYGUNA
Morningstar

" OUR THRUST IS TOWARDS GREATER DUE DILIGENCE ON FUNDS, SO WE CAN IDENTIFY WHETHER THE ASSET MANAGER HAS A GOOD REPUTATION AND WHETHER THE MANAGER PUTS HIS OR HER OWN MONEY IN THE FUND BECAUSE IF THEY DO WE FOUND THAT THOSE FUNDS PERFORM BETTER ON AVERAGE. DUE DILIGENCE AROUND THE INVESTMENT PRODUCTS AND MANAGERS IS ESSENTIAL AS PART OF THE OPTIMAL FUND SELECTION PROCESS FOR WEALTH MANAGEMENT INTERMEDIARIES."

Ongoing Rupiah weakness? Look to the dollar...

"I would be a bit concerned myself as an Indonesian investor," another expert remarked. "The currency

can fall a lot further, the financial system is somewhat precarious here, as is the external debt situation. It seems to me therefore that dollar assets are good holds."

And a fellow panellist noted that the equity market is not cheap, trading on a price-earnings multiple of around 20. With risk-free rates so high for government bonds, the equity market looks even less appealing, relatively. "I would, therefore, want to diversify into foreign assets rather than local diversification," he concluded.

"Gold is a great investment," opined another panellist. "Price levels are good for entry currently and we know that over time gold outperforms most other assets. I strongly advise moving some of the HNWI family money into gold on a 10 to 15 or more view."

OLIVIER ROBINE
Commerzbank

Gold to perform...gold to mitigate volatility

A fellow panellist concurred, adding that irrespective of the direction of the gold price, gold within an investment portfolio has a direct relationship to reducing the volatility of the portfolio. "If you look at this from a Sharpe ratio within a portfolio or any risk-return metrics within a portfolio, gold objectively benefits that. Investors should have some non-correlated assets within the portfolio that help achieve that lower volatility. Additionally, from a monetary perspective, if you compare gold with the overall money supply, gold has literally never been cheaper today. It might not have performed well of late, but it is literally at the cheapest point in the industry."

The same expert noted that gold should by early next year move through some resistance levels from USD1200 to USD1400 but that USD1800 should appear in the foreseeable future. ■