Is there Anywhere to Invest Safely and Profitably in 2019?

Andrew Hendry, since April last year Head of Distribution for Asia Pacific at Aberdeen Standard Investments (ASI), is looking forward into 2019 with the 2017 merger of Standard Life and Aberdeen Asset Management now firmly embedded. He gave a presentation to delegates at the Hubbis Independent Wealth Management Forum to cast his eye over the world of investments and to explain that although 2018 was a difficult year for global investments, there are opportunities for high-net-worth investors that should not be ignored.

"YOU HAVE A TOUGH JOB," Hendry told the assembled delegates. "Not only is it tough, but the past year has been difficult, especially Q4 of 2018. And then this year, just as people are de-risking portfolios, the S&P bounces nearly 12% year to date by March 6. So, let's keep it simple and keep in mind my three categories of clients, namely very boring, boring, and not boring at all."

A simple solution

Hendry's solution for these clients, he advised, is very simple. "Three steps required," he said. "Firstly, for example identify your clients with Singapore Dollar or Australian Dollar deposits, then ask them how much their private bank offers them for those deposits, for example today between 46 basis points to 150 basis points for Aussie time deposit for six months. Then look at inflation in Australia, which is currently 2.4% and you can see these people are losing real purchasing power."

"Step three," he continued, "if they want a 4% unleveraged return, buy into our Australian Dollar Income Bond Fund, which has delivered 4% income in a stable consistent manner, with monthly distributions. We have a group of expert portfolio managers in Sydney and in their 10 years of running this mandate never a single default in the portfolio."

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A not quite so simple solution

For the middle category of clients, Hendry turned to multi-asset strategies. "These are your clients who believe in being invested," he said, "but who perhaps feel they might have lost a little bit too much in Q4. Our solution for them is the Diversified Income Fund, with a 47% allocation to equities and fixed income, and with the rest of the portfolio in liquid alternatives including infrastructure, property, asset-backed securities, things which your clients might want to access directly on a single asset basis, as well as other assets like aircraft leasing, catastrophe bonds, and others. This genuine diversification facilitates consistent income generation for the portfolio, with volatility well below that of equity. And it is daily value, despite the fact that there are alternatives in there."

Hendry added that the fund can be hedged fully to Singapore Dollars as well as to US dollar or Euros.

And a more sophisticated solution

Turning then to the type of investor who is not so boring, and not so worried, he pointed to returns in liquid private markets and also illiquid private markets, where forward-looking returns are more appealing currently than in the public or mainstream markets, according to research from Cambridge Associates. ASI estimates that average forward-looking returns for public markets are around 3% per annum, listed private markets about 6% while illiquid private markets are roughly 6-9% per annum.

"And this is why," he reported, "institutional clients as well as private equity clients around the region are putting their money. We have a fund, the Global Private Markets Fund, that invests in the most compelling opportunities across the asset class. And we at Aberdeen Standard Investments, the eighth largest private markets manager in the world, have our own pension fund money invested in this fund, so you can see that should lower a little bit of that element of risk and due diligence that you have to do."

Moreover, as to the illiquidity premium, the underlying investments might be very long-term, as far out as 23 years for

example for an infrastructure project in the fund, but from a client perspective the fund, Hendry says, is very attractive in that investors can put their money in without a long lock-up period.

Hendry also noted that the fees are modest for the Aberdeen Standard products. "We have talked about it many times in the panels earlier today, but we charge only 85 basis points management fee for this fund.

Finally, Hendry noted that because this is an institutional fund, they have to have high degrees of transparency behind it. "Because we have to tell sovereign wealth funds and government entities where we are putting your money, we have developed a range of tools to allow investors to see the assets they are investing in indirectly, such as the Geo Locator which opens up the assets on a computer for them to see in some detail."

In conclusion, Hendry reiterated that these types of solutions help make the task of independent wealth advisers that much easier, especially in the face of tough conditions in the markets.

ASI: ready for the future

Hendry closed the talk with a comment on the new entity of ASI - Aberdeen Standard Investments that was formed out of the 2017 merger of Standard Life and Aberdeen Asset Management and that is now fully embedded and that has a far wider array of offerings and expertise.

"We are a very different and a considerably more expansive proposition for our clients than we could offer before," he said. "We have a lot more offerings within private markets and the quantitative strategies than before. We have the same history of expertise and quality as when we were just Aberdeen or Standard Life, but we have developed significantly from the organisation that people knew two or more years ago. We have a lot to offer, it is an exciting prospect." ■