Lombard Odier's APAC CIO on Refining the DPM and Advisory Propositions and on Sustainability

Global citizen and in more normal times globe-trotting private banker Jean-Louis Nakamura has, like the rest of humanity, had his wings clipped since the onset of the global pandemic. But while it has kept him in Hong Kong, that has not stopped him from remaining global in perspective, energetic in his drive to improve the bank's propositions, and also optimistic about the future. Hubbis has always enjoyed meeting up with Jean-Louis, even if remotely these days, as we did recently. We learned how this French banker, whose DNA spans the East and the West, has been helping his Asian clients refocus their portfolios in the aftermath of the pandemic. As Chief Investment Officer, Asia-Pacific, and head of the Hong Kong office at Swiss private bank Lombard Odier, he has a world of experience in wealth management, as well as deep insights into the key trends that will likely emerge in the years ahead. His background in leading French state institutions and now for many years as a leading private banker with Lombard Odier has provided him with a rigorous discipline to investing, and his long experience offers him invaluable insights into the future of wealth management. Yet again, he offered our readers and us some valuable insights and robust advice on subjects such as the drive for DPM, sustainability and ESG, and the ongoing thrust towards digitisation.

GET IN TOUCH

View Jean-Louis Nakamura's LinkedIn Profile

Find out more about Lombard Odier

Jean-Louis Nakamura has consistently reported in recent years how the bank is focusing more of its energies on encouraging your private clients to adopt DPM mandates for some elements of their AUM with Lombard Odier.

"We have really concentrated a lot of effort on this in the past five-plus years," he explains, "and we have over the last 18 months more accurately refined and articulated what we do on the DPM side and on the advisory side, forging both into a holistic portfolio approach."

This, Nakamura adds, centres on thinking around a total portfolio approach, which is combining the best of the institutional-type, systematic investment process aligned with more judgmental, emotionally driven market direction. "This combination helps to bring the best of both worlds together," he enthuses.

Refining the DPM proposition

He elaborates on the drive to enhance and promote DPM amongst the bank's private clients, explaining that the way in which the bank was managing DPM, and the value proposition promoted to clients from roughly six years ago when they really embarked on this initiative, centred on telling those clients that the bank could offer them something beyond what they could do themselves.

"We explained that we take a far more disciplined, holistic and systematic approach, largely because, as we know, especially in Asia, clients have tended to build portfolios based on a limited set of highly concentrated market views, on relatively few equities, and that means when they get it wrong, it is often rather painful," he elucidates.

Continual evolution

The bank then evolved its approach a few years ago, developing and communicating an elevated value proposition centred on maximising the effective level of analysis and investigation into ideas and stocks through a more systematic quantitative approach.

"To do so," he elaborates, "and therefore not to let them stray emotionally and follow the crowds, we try to draw them closer into the bank's DPM fold, where the managers take a more judgmental, tactical process concentrated on market views, reducing risks but on the other hand redeploying selected risk exposures into a few very highly concentrated market calls."

"We explained that we take a far more disciplined, holistic and systematic approach, largely because, as we know, especially in Asia, clients have tended to build portfolios based on a limited set of highly concentrated market views, on relatively few equities, and that means when they get it wrong, it is often rather painful."

"This approach has many merits," he reports. "In particular, when performance tends either to concentrate or to disperse, in places or in markets that were not expected to perform well, the outcomes will tend to be better than the traditional approach to managing money. And on the other side, when markets tend to concentrate performance on segments, where everyone is constructing their own bets, for example, concentrated in tech names some two or so years ago, or cyclical names some six months ago, then the more traditional approach tends to outperform. Hence our best of both worlds approach."

Retaining focus

He observes that the difficulty for Lombard Odier has been to keep clients, and also sometimes the RMs, cognisant and focused on the value-added of this kind of 'best of both worlds' approach in the longer run.

He reports that this approach has worked very well for the last 18 months to 24 months, providing investors with portfolios that were very stable in terms of risk and which delivered reasonable performance throughout the market falls, for example of the early months of 2020, and then also throughout the ensuing recovery phase thanks to their advisory leg. "We believe we have been successful articulating both the DPM account and advisory proposition," he says. "Clients here in Asia have proved sensitive to our approach."

Sustainability and ESG

Nakamura shifts his focus to explain how Lombard Odier has been at the cutting edge of sustainability and the drive toward ESG investing for many years. He reports that that the bank is immersing itself and its clients ever deeper in the world of sustainability, currently aiming to curate 99%

JEAN-LOUIS NAKAMURA
Lombard Odier

of the bank's investment ideas, products, and strategies as selected following what he calls "very deep and complex and comprehensive analysis of sustainability within the investment process."

He reports that that one of the more interesting developments at the bank is the capability they have developed to structure, track, monitor and refine portfolios based on what the bank believes to be the 'climate impact' trajectory of the names in each portfolio, thereby selecting companies with a clear plan and framework to curb their carbon emissions by 2050 and thereby to be compliant with the Paris Agreement.

"The mission is to stop temperatures around the globe rising more than 1.5%," he reports, "Although, realistically, we already know that we should be able to contain the rise within 2%, given the current trajectory, which everyone agrees would be a reasonable outcome."

It all adds up...

He adds that the strategy is central to the bank's enhanced initiatives in the world of ESG and sustainability, an area he says the bank has held close and dear for more than two decades already.

"Everything is incremental," he reports, "so if we can help clients ensure that the companies and the issuers are both compliant with key regulation but also deeply engaged with the environmental and social issues, and we believe this approach will not only be positive for our planet, but also for returns, as ESG significantly helps avoid a variety of risks and therefore potential significant losses, while also opening the door to important investment opportunities and uplift potential."

belief that it might be difficult for yields to go much higher than we have reached recently. As soon as you achieve those sorts of levels, you spontaneously have a strong appetite amongst investors."

Watching China

He also reports that there has been robust demand for Chinese fixed income, although there remains a lack of clarity about the Chinese government's position regarding SEOs and protecting them from potential default events, of which there were more than a few in 2020. "We will have to wait and see how it all plays out," he says, "but clearly, if the final outcome sees the Chinese government fully supporting SOEs, there is more likelihood of seeing strong appetite return for Chinese fixed income. We are monitoring this carefully."

"Everything is incremental, so if we can help clients ensure that the companies and the issuers are both compliant with key regulation but also deeply engaged with the environmental and social issues, and we believe this approach will not only be positive for our planet, but also for returns, as ESG significantly helps avoid a variety of risks and therefore potential significant losses, while also opening the door to important investment opportunities and uplift potential."

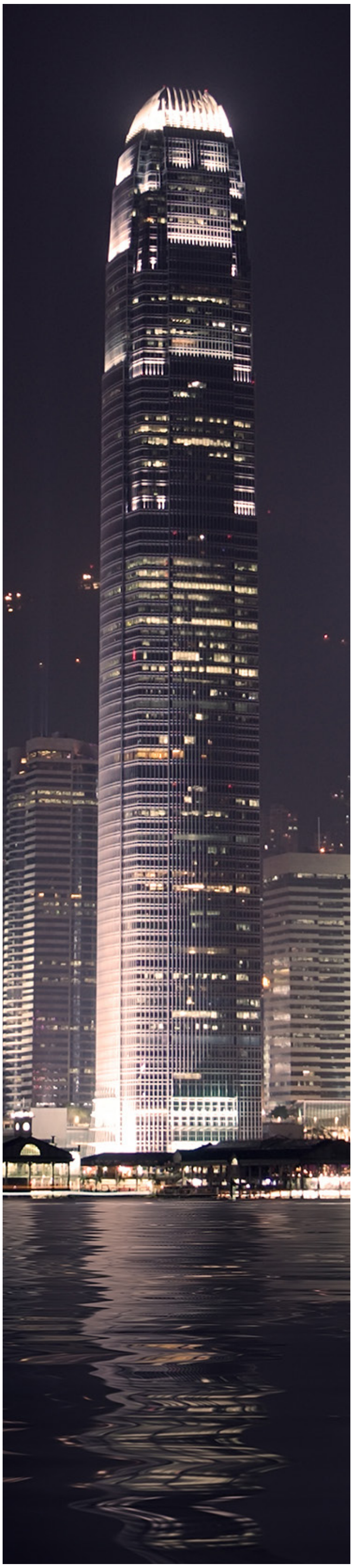
Watching the trends

Nakamura also reports that the bank continues to see ongoing demand for fixed income, despite the collapse of rates and the more recent rising yields at the longer-dated end of the maturity spectrum.

"After the rise in treasury yields that we saw earlier this year," he comments, "we have seen a strong appetite of many investors again for fixed maturity products, trying to lock on some level of yield, even if it's quite low, really in the

Crypto-scepticism

In terms of other key trends that he sees emerging, he says that the bank remains immune to the cryptocurrency fever that has manifested itself amongst some investors around the globe. "We stick to our position of steering ourselves and therefore our clients



away from digital assets for now," he reports. "We see too much risk; we don't want to be in a situation to recommend them or even to store them, but for the types of clients we have here, this is not an issue at all."

Taking the conservative road

He also comments on the inherent character of the bank and what it sees as its prime duty in handling private clients.

"We are often seen as conservative," he says, "however it does not mean we seek at minimising risks but rather at diversifying them, taking a holistic approach to portfolio construction, and always trying to align the allocations to the needs and expectations of the individuals and thereby ensure suitability and relevance. As long as the client is willing to share the appropriate information with us, we have the possibility to do a full analysis of where the risks are and how those risks are diversified or not, and then take a systematic approach to refining the portfolios."

Open dialogue is vital

He adds that open dialogue is essential, as so often, clients are unaware of weaknesses, for example, unaware of the concentration risk they may have in their portfolio. "It starts with dialogue and then analysis, and then we build step by step in two directions, both highly integrated," he reports. "One direction is the structuring of the wealth for the individuals and the families to make sure those structures meet their longer-term objectives. The other direction is to make sure that the investments are assembled so as to mitigate the key risks that today include market risk, liquidity risk, and also sustainability risk."

"In summary, we see the need for holistic portfolio construction rather than trying to focus on asset type by asset type or one portfolio by portfolio and looking at each individual account and trying to promote what is supposed to be the best product," he elucidates. "We do not see ourselves as reducing our costs, we are not interested in that kind of a value proposition, we want to offer the best and the most suitable for our clients."

A changing world, demanding great expertise

His final word is that the private banking industry and wealth management have to some extent, changed since he first entered the scene, when the relationship was paramount and so much of the RM's time was spent connecting to clients.

"Digitisation has changed things, of course, and is reducing the importance of the human connectivity in some segments, although in the upper categories of wealth, the human touch will still be there," he says. "However, to survive there in the future, the RMs must become increasingly expert, real specialists, they simply cannot afford to be relationship-driven generalists, and they need to cultivate this level of expertise, permanently learning, because things continue to evolve very fast, so skills, expertise, and the thirst to remain entirely connected to the latest economic, market, product and other trends are vital, and only armed with all of these can the RMs then leverage their relationships." ■

Getting Personal with Jean-Louis Nakamura

Despite his Japanese surname, Jean-Louis Nakamura is French, through and through and proud of it. Born in Paris to a Japanese father and French mother, his education took place mostly in Paris and at leading name institutions. "Yes, I have a Japanese name," he says jovially, "but I am completely French, I must say, although naturally, I am deeply in tune with Japan and more broadly Asia."

He enjoyed a typically formal education in France and later graduated in both political science and economics. He had attended a famous French civil service school ENA, Ecole Nationale d'Administration, before taking his first job at the French Treasury, where he was lucky enough to be surrounded by some highly skilled economists. He was also lucky enough to be in Brussels between 1999 and 2001 when the Euro was born.

Nakamura's background is therefore highly disciplined, as it is largely institutional. After the French Treasury, he was later Chief Investment Officer of the French Pension Reserve Fund, which he describes as a small-scale sovereign fund for French pensioners. After that, Nakamura was briefly managing director of the civil service pension fund in Paris before joining Lombard Odier in March 2008, since when his career and his enjoyment of private banking have both flourished.

For leisure, Nakamura concedes that he is not a natural sportsman but is sufficiently disciplined to take part in outdoor activities for health reasons. "For vacations, we really miss our skiing in Niseko, in Hokkaido in Japan, or trips to Europe," he reports. "But during lockdown here in Hong Kong, I have been honing my cooking skills, trying to practice different cuisines from France and Japan, and the Thai and Lao foods that I learn about from my wife, who is French Laotian."

His closing comment is on the pandemic and trying to see the silver linings on the dark clouds of Covid-19. He has four children aged 23, 21, 18 and eight, two of whom are in Paris, and two in Hong Kong.

"The two in Paris I have not seen for over a year and that is really tough," he reports. "But I have been impressed by their fortitude and resilience, despite not being able to enjoy almost any of the lives they should have at their ages, spending time with friends, enjoying normal school lives, seeing family, grandparents and so forth. We just have to see the positives beyond the obvious negatives, and take the lessons forward in all our lives, to value what we have today and value the future."