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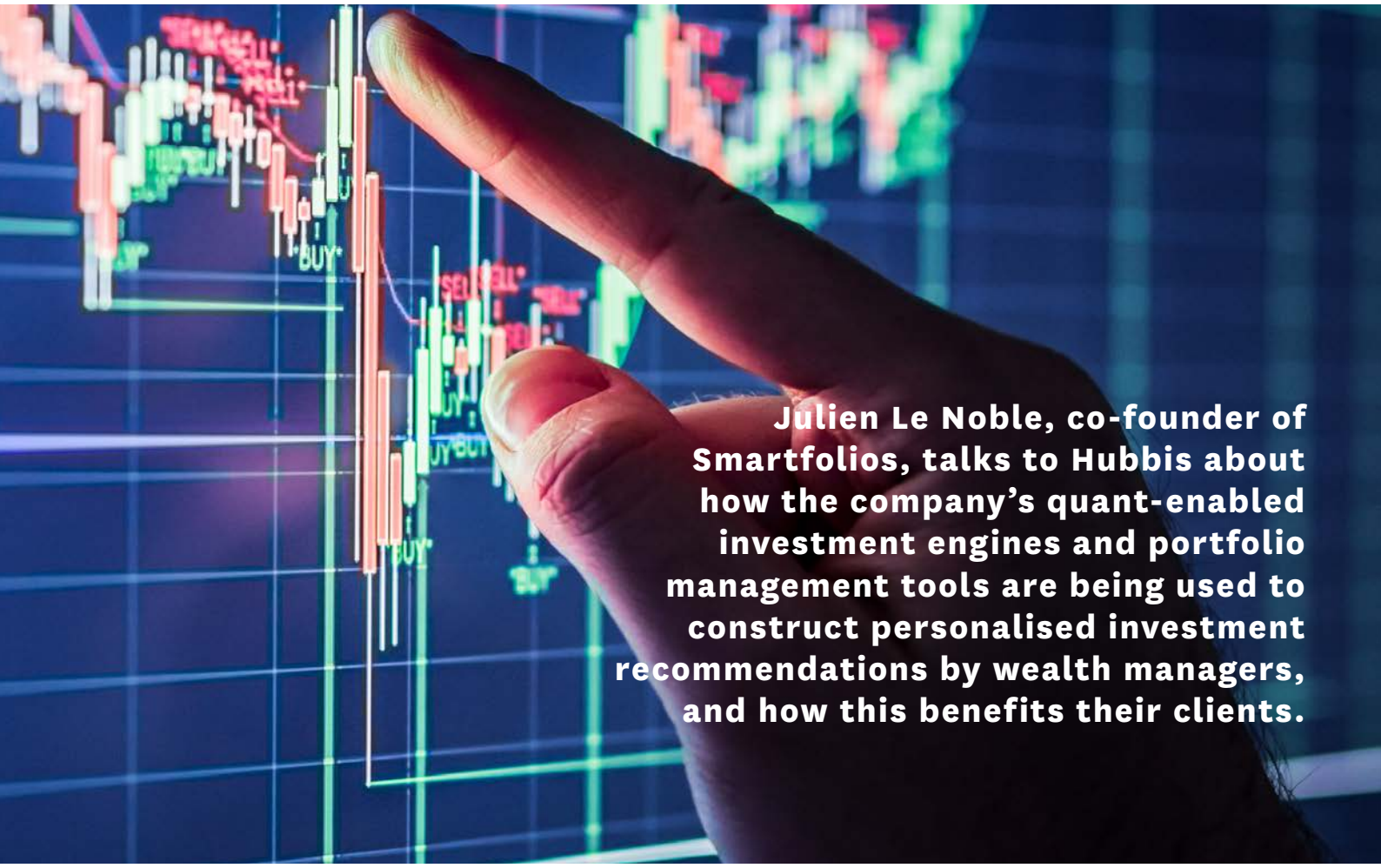
Next-gen quant-enabled advisory and investment platform



Julien Le Noble, co-founder of Smartfolios, talks to Hubbis about how the company's quant-enabled investment engines and portfolio management tools are being used to construct personalised investment recommendations by wealth managers, and how this benefits their clients.

QUANT-ENABLED INVESTMENT TOOLS CAN HELP BANKS and wealth managers break away from the somewhat oxymoronic "mass personalisation" of current financial advisory practices and take a more systematic approach to financial advice and portfolio management, by enabling them to offer their clients with personalised investment recommendations aligned with, among other things, the client's particular life goal, risk tolerance, investment preferences and objectives.

The quantitative approach to investing is nothing new, having grown apace with advances in computing technology beginning in the latter half of the 20th century, but the "Robo 1.0", one-size-fits-all model of investing needed an update. Le Noble co-founded Smartfolios, a quant-enabled advisory, insights and portfolio management platform for financial institutions, in 2016. Smartfolios was recently acquired by Finantix, in February 2018.

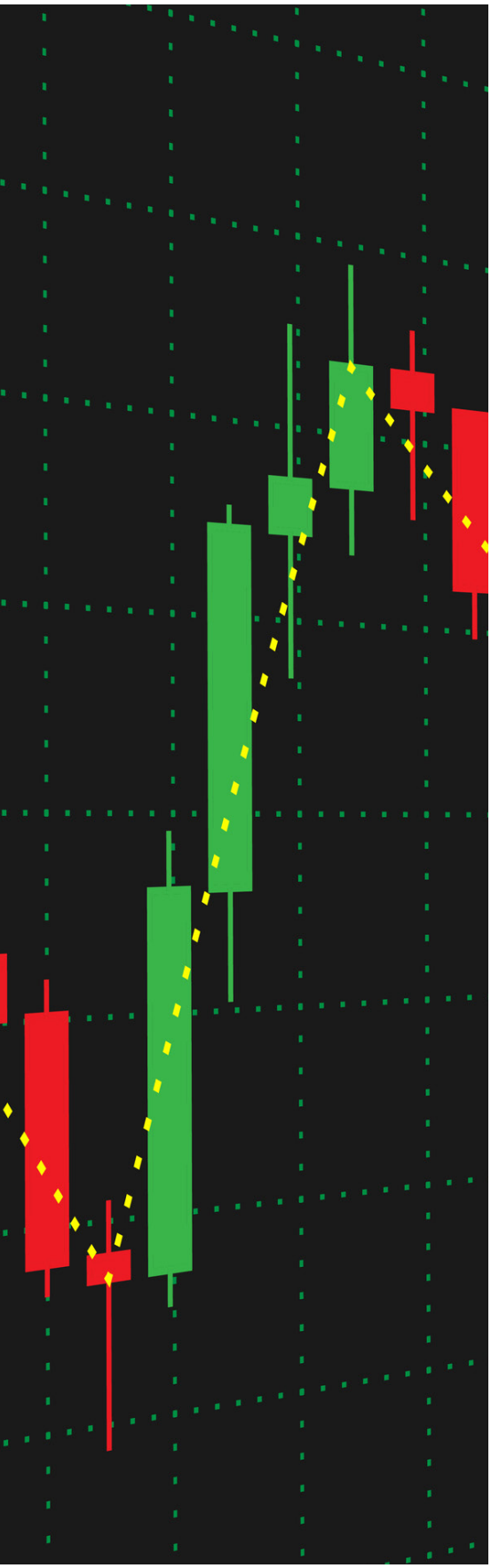
"Our business was incepted two years ago, based on the observation that whether you are a CIO at a private bank or operating as an independent wealth manager, you are aiming to be increasingly relevant to your clients, personalise the investment recommendations you send them, and break away from product pushing. More often than not, the challenge faced by the institutions is in the ability to generate personalised advise and recommendations that are timely, relevant and improve clients' portfolios risk/return" he says.

Investors are expecting the banks and wealth managers to do better and are demanding a more personalised and innovative investment offering, a more transparent and more systematic approach to the investment process. For the traditional wealth manager, whose business has been product-based, reactive rather than proactive, and primarily geared toward the distribution of traditional investment products, the time to tool up and reinvent themselves is upon them.

Harnessing the power of data

Le Noble says the significance of personalising investment recommendations is that the client will be able to express their preferences, and that the bank or wealth manager will be able to define and take into consideration what the client has already done, what they have already invested in and what they are willing to invest in going forward to the future.

"There are many factors that come into play," says Le Noble. "The engine initially gets input for a given customer, whether directly or inferred, and translates that input into recommendations



that are visibly aligned with it. But it doesn't stop here. Because our approach is quantitative in nature, our quant models generate analytics that are used to provide insights to enable the bank or wealth manager to advise in a timely fashion their customers on their portfolios, as and when required, say if there are changes that need to be made to stay on track with goals or keep aligned with house view."

For example? "Say the Fed is planning to increase rates faster than everybody thought, or that trade tensions get beyond just words and show potential of affecting several key sectors of the Asian economy, that needs to reflect in how you're positioned with your portfolio, whether it's in equities or in fixed income, and that needs to reflect in how you rotate some of your holdings to factor in these changing conditions or new trends," says Le Noble. "As a wealth manager you want to be able to add this into your convictions and views, and translate this into specific recommendations that are relevant for your customers. We believe that the recommendation generated will be as robust and unbiased as it can be when it's based on data and the transparent and systematic approach we're enabling with our tools."

Getting personal and augmenting the investment process

As for investment recommendations, he says, Smartfolios quant-enabled advisory tools are "product agnostic," meaning they tap into the existing infrastructure and construct client portfolios from the product universe that the bank or wealth manager is already recommending and providing access to, whether they are listed products, ETFs, stocks, funds, securities, unit trusts or other asset classes.

"Because we're quant-based, it's all about the data on which our models are built. And, having tapped into the universe of products the bank is offering to its clients, we then have these models that we expose to the CIO or the investment team for them to validate the parameters and factors used in building the portfolios and strategies. From there they can iterate through the validation process with dynamic back-testing across a wide range of assumptions before deploying the strategies for internal validation and customers distribution."

According to Le Noble, this approach aims at augmenting the wealth managers investment process, rather than replace their current practices, providing them with tools that are aimed at increasing productivity and their ability to be innovative in their investment recommendations. In other words, adding a sophisticated quantitative overlay without the upfront costs and time that would otherwise be required to achieve the same outcome.

Obviously, the mix needs to relate to the client's risk profile, and Le Noble says basing recommendations on quant models - and therefore, on data - makes it less prone for banks and wealth managers to be merely "pushing products".

"You're much more in tune with what the optimal balance of products and assets should be for the customer," he says.

"And to get to a level of increasingly personalised investment recommendations, the Smartfolios suite of tools allows wealth man-

agers to easily construct, validate, and deploy investment strategies of several types. Thematic, fundamental and multi-factor, or technical analysis strategies can be deployed as an overlay to the core asset allocation, or form part of core-satellite portfolio offering."

For clients of advisors using these tools, says Le Noble, "it means at the end of the day that they are in front of someone who demonstrates an ability to offer them solutions they need and relate to. The advisors have that tool which will make that, effectively, more of a reality."

Current trends

So, do current trends in wealth management - challenges, regulatory issues, cost or revenue - point to a wider acceptance of quant-based investment tools?

Le Noble believes that the Asian private wealth world differs from the American and European ones in the sense that "today, with first and second generation entrepreneurs and business owners and wealth, the advisory mandate seems to prevail over discretionary portfolio management, which in turn means it's mainly about transactional income for the wealth managers."

Compared to the interests of a wealthy individual in Europe, he observes, which are mainly about capital preservation or income, in Asia it is more about capital growth relative to preservation, about opportunities for investment returns. In that context, many Asian investors, Le Noble says, are interested in thematic investments because they have built and continue to grow their wealth with their businesses, and are therefore more at ease trading with their surplus wealth. Whether it is about taking advantage of the rise of artificial intelligence or the opportunities of a rising inflation environment, the possibilities to offer innovative strategies around different kind of themes is a compelling proposition.

He adds, "Discretionary portfolio management will not be overtaking advisory mandates

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in Asia any time soon. That said, thematic investments - which is a lot of what we make possible to construct - tend to have that element embedded in them. There can be some mid- to long-term positioning, as opposed to just trading within a week on the market movements around a geopolitical event for instance."

"When we started two years ago, we decided to differentiate by concentrating on building a portfolio construction and analytics engine, leveraging a quantitative approach to its offering."

Now part of Finantix

Of the February 2018 Finantix acquisition of Smartfolios, Le Noble says: "When we started two years ago, we decided to differentiate by concentrating on building a portfolio construction and analytics engine, leveraging a quantitative approach to its offering. And after having been selected by the Monetary Authority of Singapore (MAS) as one of the 20 Hackcelerator finalists among 600 applicants at the Singapore FinTech Festival last year, we realised that the uniqueness of our offering was being noticed, but was better fitted into a broader offering such as Finantix, which has close to 20 years in wealthtech, with a very broad and diverse set of digital sales and advisory solutions today implemented in 40 markets by top tier banks such as UBS, StanChart and the likes."

Now, he says, Smartfolios successful integration of Smartfolios technology within the Finantix overall platform is well underway and the quant-enabled tools are already being offered to existing Finantix customers in the region, from Singapore, to Hong Kong, Thailand and Japan. "The reception of what we have so far presented has been pretty outstanding," says Le Noble. The next step, he adds, "is to extend the offering with a cloud hosted solution for more flexibility in terms of deployment and easier usability and accessibility. This is turn also enables us to be appealing to a broader set of customer segments who are also looking to be equipped with the right tools. And given the growing part of wealth being managed in this region by independent wealth managers and external asset managers, they are an important customer pool we interact with." ■