FEATURE ARTICLE

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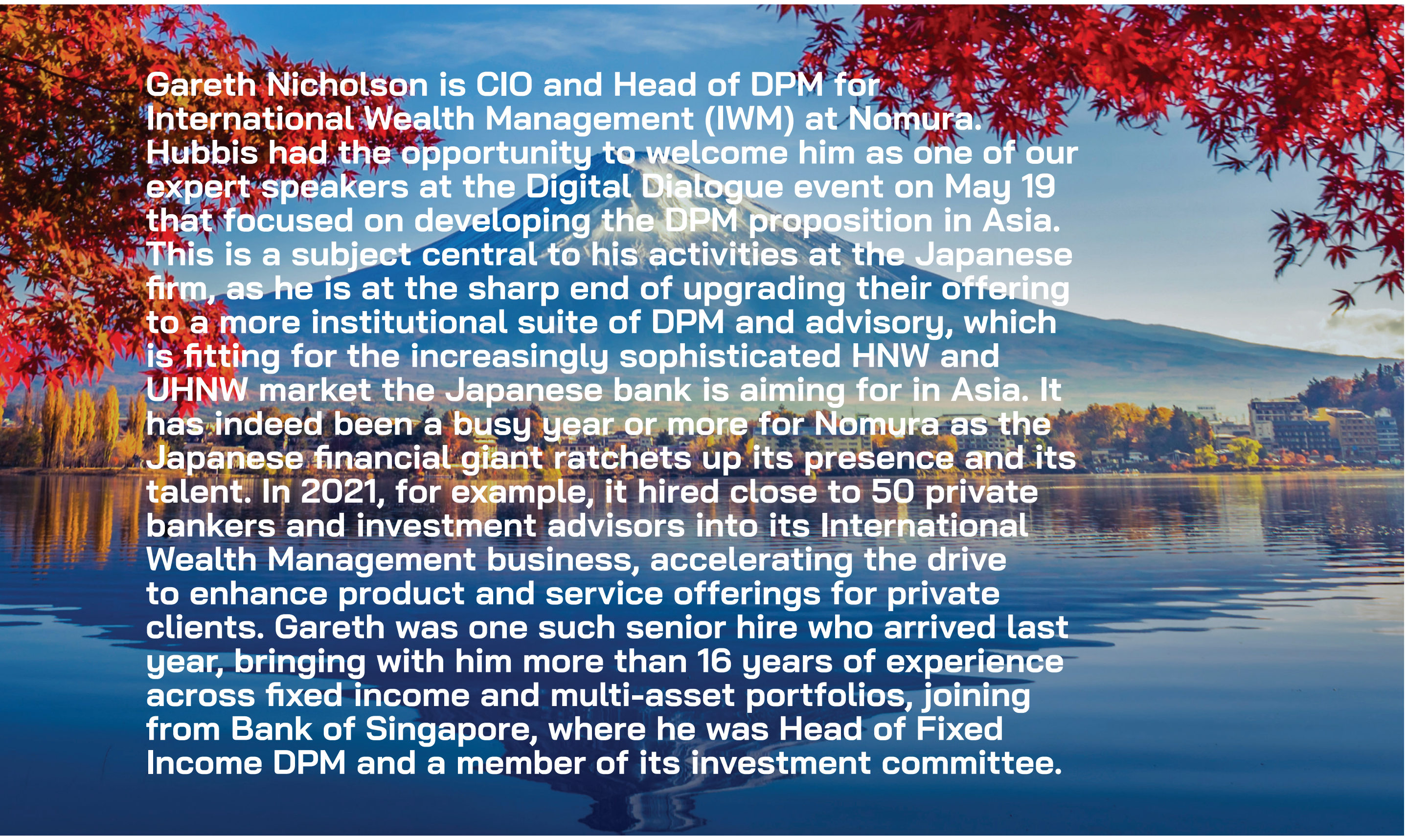
Nomura Private Bank's CIO and Head of DPM on the Growing Appeals of DPM for Asia's HNW and UHNW Clients



Gareth Nicholson is CIO and Head of DPM for International Wealth Management (IWM) at Nomura. Hubbis had the opportunity to welcome him as one of our expert speakers at the Digital Dialogue event on May 19 that focused on developing the DPM proposition in Asia. This is a subject central to his activities at the Japanese firm, as he is at the sharp end of upgrading their offering to a more institutional suite of DPM and advisory, which is fitting for the increasingly sophisticated HNW and UHNW market the Japanese bank is aiming for in Asia. It has indeed been a busy year or more for Nomura as the Japanese financial giant ratchets up its presence and its talent. In 2021, for example, it hired close to 50 private bankers and investment advisors into its International Wealth Management business, accelerating the drive to enhance product and service offerings for private clients. Gareth was one such senior hire who arrived last year, bringing with him more than 16 years of experience across fixed income and multi-asset portfolios, joining from Bank of Singapore, where he was Head of Fixed Income DPM and a member of its investment committee.

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Gareth Nicholson
Nomura

Gareth today works

closely with Nomura's Global Markets and Investment Banking businesses to expand the firm's product offerings and spearhead a streamlined, solutions-driven coverage effort for high-net-worth clients, external asset managers and family offices.

With a strong institutional investment background, he creates and manages DPM strategies for fixed income, equity and multi-asset portfolios while providing risk management support. Before arriving at Nomura and prior to working at Bank of Singapore, he was with Aberdeen Standard Investments for almost 10 years as a fixed income trader and an Asian credit portfolio manager. He began working in finance in 2004 as a derivatives specialist with Deutsche Asset Management after an early career as a mathematics teacher. Gareth holds a BSc in Financial Mathematics from the University of Johannesburg. He was born and raised in East London, South Africa.

Key pressure points

He opened his observations by observing that there are currently three main pressure points, namely policy, geopolitics and the pandemic.

"Policy is driving a lot of fear in the market," he observed. "Clients and investors have become acclimatised to an environment in which the Fed apparently won't let the markets go down too long. Volatility dampening has been the name of the game. But we think that the path now is different, and the Fed will be the type of aggressive Fed back in 1994, aiming to get inflation under control but also engineer a soft landing. However, back then, we saw some of the largest drawdowns in bonds and some of the largest drawdowns in funds in history. In short, 2022 looks pretty tough."

Protection first

"In this environment, it is all about managing volatility, managing the downside and taking a very institutional investment management approach, which is the heart of our DPM offering," he reported. "DPM is relevant for all clients in at least a portion of their portfolios, and across the risk profiles they might have," he explained. "We actually have a significant portion of our AUM in DPM, but we are relatively new entrants, so we are growing fast but from a low base. Wealth is growing apace in Asia, and more and more clients want some or much of their money in portfolios that are professionally managed,

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and then they can focus their own investments on areas in which they might be knowledgeable or highly confident."

He added that this is a trend he expects to continue, especially as clients in Asia increasingly see the value of the active approach. "Private clients want capital preservation," he said. "They see our value in helping to actively manage their downside, especially in environments where volatility is so high and while policy continues to so significantly drive markets. The overall environment is actually rather conducive to DPM."

Follow the leaders

Accordingly, he reported that Nomura's private clients are largely following his and the team's advice. "We are now sitting on 21% cash and 10% in alternatives, which represents the most cautious approach for a long time," he reported. "However, cash is not king in this situation, so we aim to be nimble, to try offset inflation, to protect but also to seize opportunities, for example, through structured products. In short, we need to be active, we cannot sit and wait; we need to assess volatility and the risks and take advantage if and where we can."

He extrapolated from these comments, stating that in such conditions, Nomura can really earn its keep in its DPM mandates.

DPM tailored to risk appetites

As to the formulation of portfolios, Gareth explained that this naturally depends on the risk appetite of the client. However, in general terms, he said that a roughly one third apiece approach with fixed income, equities, and cash and alternatives was a basic approach around which the different risk approaches could evolve.

"This is a massive simplification for the purposes of this discussion," he told delegates, "but in short, we need to have a mixture of ETFs where we like the beta, we need single line securities based on underlying conviction, and at the same time, we need some thematics and the alternatives such as larger REITs, hedge funds and private equity. A robust DPM portfolio can contain all these elements, supported by our house view and then adjusted to clients' risk appetites."

Passives managed actively

He also remarked that passive strategies such as ETFs are very widely employed by active managers. "It is not an either-or approach, as some of the biggest investors in ETFs are actually active managers, using them as excellent vehicles for beta exposure at very low cost," he reported.

Gareth also commented that a core appeal of DPM is the consistency of approach. "Over time, we are confident that DPM produces better, consistent, lower volatility returns," he stated. "In the very good years, DPM may not outperform, because there is a bit more of a cost associated. But in times of greater uncertainty and more volatility, more clients come into the fold, perhaps starting with 20% of their assets and then building confidence and loyalty over time. The current environment globally is supportive of and encouraging for this type of transition towards DPM." ■