Nomura's International Wealth Management CIO on the Drive to Institutionalise the Unit's Investment Proposition

Gareth Nicholson is CIO and Head of DPM for International Wealth Management (IWM) at Nomura. Hubbis met him recently to learn about his views on markets and portfolio formation and to hear about the sort of advice he and colleagues are offering their private clients. The big story for the unit, he reports, is the upgrading of their offering to a more institutional suite of DPM and advisory, which is fitting for the increasingly sophisticated HNW and UHNW market they are aiming for. In his spare time, South African Gareth practices callisthenics to keep focused, mindful, flexible and strong. He says private client portfolios should exhibit the same sort of characteristics, faced as they are with all sorts of local, regional and global challenges ahead.

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It has 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 of those who arrived last year, bringing 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.

He reports to Akshay Prasad, Head of Investment Products & Advisory Solutions (IPAS) within IWM.

Apart from the CIO and DPM bespoke money management strategies, Nomura offers cash and structured solutions across equity, fixed income and FX, trust and wealth planning services, as well as access to world class funds.

Since Ravi Raju's arrival as Head of IWM in September 2020, Nomura has also successfully integrated the business into its Wholesale division. The alignment of IWM with Global Markets and Investment Banking will further speed up and deepen the institutional approach and enhance the product suite to meet the sophisticated needs of Nomura IWM's target entrepreneur, HNW and UHNW clients in the region.

IWM has built immense expertise and product breadth in lending and credit structuring, from vanilla Lombard lending to bespoke single public and private asset, acquisition, cash flow based, strategic and special situations financing. It also offers equity private placements, and provides the required advisory services to help clients take their companies public, making it a great partner for UHNW, family offices, institutional and quasi-institutional set-ups.

Gareth is clearly well suited to drive Nomura IWM's institutional approach towards its clients. He has an organised mind, arriving for the conversation with a clear set of goals around advice, products, the platform, the quest for income, the rising role of private markets and alternatives in portfolios, as well as the increasing prominence of ESG.

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Advice and its delivery

Beginning with the type of advice and delivery that Nomura is offering clients today, he characterises this broadly as more targeted, personalised advice leveraging what he describes as Nomura's long history of best-in-class tactical actionable trades, combined with the views of a newly re-configured investment committee and risk management team.

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A changing global financial landscape

Right now, he reports that clients are advised to prepare for change, to reshape portfolios amidst rising inflation and a major G7 central bank drive to aggressively tighten monetary policy.

"The key client achievable outcome that we see in the next 6 to 12 months is to achieve a solid but not overly aggressive return while dampening down exposure to the growing volatility," he reports. "Hence, we are directing clients towards portfolio optimisation in the form of alpha curation, income generation and significant asset and geographical diversification," he explains.

No one-size-fits-all

Gareth reports that they certainly do not take a one-size-fits-all approach. He explains that a vital first step for all clients is working with the investment advisors to fully understand their portfolios, risk profiles and needs.

"After identifying key market risks including concentration, correlation, illiquidity, and so forth, our team then partners

GARETH NICHOLSON
Nomura

across the Nomura network to offer a number of interesting hedging options in both structured products and portfolio optimisation," he explains. "This process and the depth of the solutions we can assemble is something facilitated now by our position within the wholesale business, thereby gaining easier access to a more institutional range of ideas and products."

Private markets on the rise

Gareth reports that they are building a greater presence and expertise in private markets and alternatives.

"Our investment committee has introduced alternatives into our Standard Asset allocation as a key building block," he reports. "We recognise that today's market environment is really very different to that of the last 15 or even 30 years. Just look at the increased complexity to receive a basic income. And in the coming years, we will see a series of persistent new market realities including globalisation, increased bouts of volatility, lower bond yields, and lower expected equity returns."

Alternatives are no longer just an option

He says this means the anticipated market environment is likely to be conducive for alternative investments to help mitigate volatility and potentially deliver better results than traditional public market investments. In short, alternatives are ever more essential these days, and no longer the option they once were when a rising tide of liquidity was floating all public assets and markets for so many years.

"In light of increasing correlations among traditional investments and lower expected equity returns, advisors need to identify investments that historically have exhibited lower correlations," he explains.

The vital role of diversification

He elaborates on these comments, noting that diminishing opportunities for alpha, income and diversification in the public markets have made alternative investments essential, not optional, for meeting portfolio objectives.

"Within our framework, we define alternatives as low correlation, alpha-generating assets enhancing traditional assets," Gareth explains. "Increasingly convinced of why alternatives are necessary and the fact that opportunities in the private marketplace are becoming increasingly accessible to non-institutional investors, investors now grapple with how to add alternatives into their portfolios."

Under his CIO office, Gareth reports that Nomura has set up an Alternative Framework to help investors position portfolios for the changing world.

"We recognise for some investors, improved access should not necessarily mean larger allocations," he says, "and no investment should be made without first understanding the nuances of investing in alternatives."

The four points of the investment compass

He expands to a wider-angle view of portfolio formation, reporting that he and colleagues within IWM are pointing clients to four directions on the investment compass. One is private equity to boost the alpha outlook by partnering with best-in-class opportunities. Second is the macro/thematic/ income enhancer based on the evolving global economic regime. It is primed for macro-outperformance and partners with in-house institutional giant, Nomura Asset Management.

Thirdly, there is an increased focus on real estate for both income and inflation protection. And lastly, Nomura is curating interesting ideas in commodities and sustainable themes around megatrends.

Keeping things private

He turns his attention again to offer more insights on private markets, which he says are more appealing than ever.

"Just as the private equity industry helped bring about the sectoral transformations of public markets toward technology and communication services over the past 10 to 15 years, we expect it to continue to act as a change agent, helping to enable growth and operational efficiency in many areas of the economy," he comments. "With what appears to be another decade of innovation and transformation ahead, and new investment tools to enhance returns, we believe the private equity outlook is healthy enough to generate adequate returns above the public markets."

With a historically wide dispersion in manager performance, an inherent factor in private equity investing has been the ability to identify and access above-average managers. Recently, peer group dispersion has compressed somewhat, but manager selection remains a crucial element in achieving an adequate return premium. "We are experts in these areas and deliver best-in-breed ideas and solutions," he states.

ESG and Sustainability

ESG and sustainability are key growing factors driving portfolio formation nowadays. "We have a set of actionable ideas we deliver clients around mega-trends and sustainable growth themes," Gareth explains. "In our Quadrant Framework 'Fortuna', we identify the beta and alpha plays using ETFs and stocks, which exhibit attractive risk/rewards. At the same time, we applied a proprietary ESG risk metric to quantify companies' risk exposures related to ESG issues. It combines a company's own ESG risk exposure with the exposure of the corresponding countries and sectors."

He reports that across mainstream public and private assets, the firm has a number of favourite investment themes, including healthcare innovation, cybersecurity, clean energy and digitalisation. "These themes aligned with the right approach to ESG and sustainability are multi-year holds for the future," he says.

Key Priorities

From an investment perspective, Gareth reports that in the short term, they are ratcheting up access to low correlated income that is not going to have huge drawdowns.

"We are achieving that with products that are different, have a slightly new focus and diversification," he explains. "We are taking advantage of our East-West connectivity to provide a global offering to clients. We are looking at Asia, which is a higher beta part of the world and able to find long-term mega-trends within China that we think are going to be able to weather constant change. Additionally, there are a number of very interesting stable income opportunities coming out of our home market, Japan."

Other priorities include delivering more derivatives and other interesting, structured products to clients. "We want to be able to put some of these ideas, either for hedging strategy or to enhance yield," he reports. "Moreover, as I outlined, we will be providing better access to alternatives, better access to ESG and sustainable investments, with primarily an Asian focus."

As he had highlighted, DPM is a core mission for him, with momentum due to increase once more travel and meetings are possible in the region.

"We have done a lot of the spadework while we have been shut down, and as we open up we will be able to boost the marketing of our active management approach, which we believe is more important than it has been for a long time," he explains. "There is no rising tide, and only some of the boats will float, while others flounder."

He draws the conversation to a close by reiterating that Nomura wants to focus a lot on UHNW clients and family offices and entrepreneurs heading towards a listing or exit of their businesses.

"We are a powerful institution that is also highly entrepreneurial itself, hungry to build our client base and to provide the best service and quality," he reports. "We are rising up from a relatively small base, so we are remarkably ambitious, and our clients benefit from the attention we pay to them and the service we deliver."

Making the complex manageable

Stepping back from the detail, Gareth describes his role as organising into a digestible and manageable format for private clients, the truly huge Nomura resources. "Wealthy and uber-wealthy clients tend to be super smart, and also remarkably busy, so they want consolidated and condensed views," he comments.

He says IWM's DNA is as part of the bigger whole of Nomura, a relationship he describes as the little brother of the very big brother, which is global markets. "They have a vested interest in us, as we directly affect their performance, so there is a great degree of collaboration," he reports. "Leveraging our wholesale business's incredible strengths in markets and IB offers us in IWM access to a myriad of ideas, products and talent."

Building the DPM offering

The firm is also building out its DPM proposition. "Our goal is to offer an institutional level asset management framework and service to manage private wealth with great attention to balancing risks and rewards," he explains. "DPM offers clients that level of buoyancy and safety that keeps a boat upright when speeding ahead, as well as the stability amidst unforeseen storms," he says. "Consequently, we have made that a priority, working in partnership with Nomura Asset Management to also offer unique products alongside traditional DPM."

He adds that the DPM desk needs to be equipped with innovative digital tools, and that they are focusing on platform upgrades for faster time-to-market response to market disruptions and to enhance the client experience by providing bespoke investment solutions.

"The internal relationships we leverage give us an added value for DPM that clients would not normally enjoy at other private banks," he comments. "Moreover, Japan is a G3 economy, and many of our investments will be curated from a Japan perspective, and Japan offers immense stability and incredible reach."

New ideas, new products

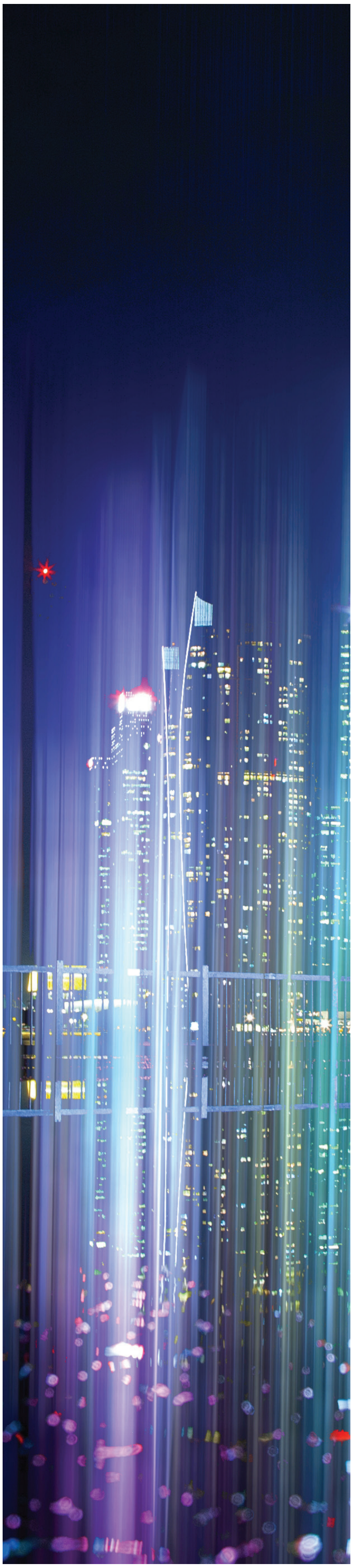
He explains that, for example, they have a campaign with NAM running since January this year that is developing a strategy focusing on a factor model to produce a yield enhanced product with a 7% return, less than a 7% risk over the last 10 years and with daily liquidity.

"It is an ideal DPM product and has already been successful," he says. "It produces stable returns with low drawdowns and regular income, and we can adapt it not just for traditional equity and bond mandates, but also in innovative ETFs and other products."

Moreover, he says there are other opportunities thrown up by the NAM alignment. For example, in 2016 Nomura acquired a non-controlling economic interest in American Century Investments, a very big investment manager in the US that has little presence in Asia and that has a great track record in medical research and medical innovation. "What is nice about being within the Nomura 'big brother' scenario is we benefit from the group's advances as well, for example its investments in the world of cryptos and digital assets, its thrust into ESG, Nomura Greentech's initiatives, and so forth," he explains. "All these can start filtering straight into IWM portfolio."

Alignment of vision and understanding

Gareth also explains that the IWM investment committee aligns the views of both global markets and the IWM team and meets monthly to guide DPM and actionable ideas for clients. "Moreover, we have a new platform that houses many new products, including more derivatives, more alternatives, and more liquid yield enhancement products. And we



approach everything from an Asian perspective, which is ideal for clients based in this region."

He reports that the standout project they have at the moment is their Fortuna platform, which he says divides the investment universe into four quadrants that look at earnings, fundamentals, technicals and valuation, and across any asset class.

Digging deep for value

"This is providing us with the ability to rapidly compare value, to identify where fundamentals and value opportunities align, and greatly enhances our capability to manage as well as visualise huge amounts of information," he enthuses. "It combines the best of Bloomberg with the most innovative tools of Python, both of which we greatly admire. We are busy training our teams extensively and constantly to help them identify ideas and relay them to the RMs and then onto the clients."

He adds that they also work with ESG data and metrics providers, with AI-driven risk management tools to then align ideas to other objectives, such as sustainability and also portfolio risk mitigation.

"And some of the other advances we are bringing in are more works in progress, such as AI and ML-driven data to help us with cycles and further refinements," he explains. "But working so closely with Nomura Asset Management, we are able to fast-track this type of evolution."

From past to future

Gareth re-centres the discussion by offering a quick and simple historical view on risks and returns in order to set the scene for their current advice.

He points to the ease with which a return of 5% could be achieved in the early 1990s with minimal risk and all via fixed income. By 2006, achieving this 5% return meant allocating more to equities, which meant higher risk. "And now to get any decent return, people are looking at private equity, real estate, large-cap, small-cap, emerging markets, and so forth, so risks are going through the roof."

"Accordingly," he reports, "diversification and smart risk management are essential to obtain safe, reliable returns. And the reality is many clients simply do not have the expertise or time to manage all that, so we provide our expertise to handle some or all of that for them."

Keeping teams and clients engaged

His final comment is that the team works hard on thought leadership in order to keep engaged with team members, especially important, he thinks, in a time when people are working remotely. "It is not so easy to keep each other engaged, accountable, interested, but we make every effort to do so," he says. "And we wait for the times ahead when the world returns to some normality." ■

Getting Personal with Gareth Nicholson

Gareth hails from East London, a province of the Cape in South Africa. "It's a small town on the beach, and I grew up there fishing and playing with my friends, and thinking about it, I still have a really strong sense of belonging there," he recalls. "I set out for a career as a mathematics teacher, probably still my first calling. Then I moved to the UK, ironically to Barking in the East part of London, and it was there I discovered a passion for derivatives and trading and the rest is kind of history. Maybe at some point perhaps I will go back to teaching."

The move to the UK was his first venture overseas, and his family still live in South Africa. He says his brother is still in Africa as well, working as the iconic bush pilot in Botswana. "He has to scare the elephants away in order to land the tourists deep in the bush," Gareth reports. "It can be quite high octane, as you might imagine."

His own adventure in derivates and trading began shortly before the Lehman debacle, working for Deutsche Asset Management when together with Deutsche Bank they were amongst the biggest derivatives traders in the world, and London the derivatives global powerhouse.

"I worked on interest rate swaps, CDS, and other sophisticated products," he reports. "Cutting a chunk of the story out, after the GFC hit, I then had the opportunity to get to grips with the European debt crisis. It was fascinating understanding first hand all the difficulties faced by the southern European economies to overcome their debt burdens. Those were challenging yet fascinating times."

In 2013, when the Fed-inspired 'Taper Tantrum' scare occurred, he managed to shift his focus to Asia and concentrate on emerging markets.

"China was really gaining traction then, the Chinese bond market was growing phenomenally fast," he recalls. "It was an exciting time to get involved. And today, I am combining my more institutional, risk management background with a client-facing role. Our UHNW clients very often want to talk to me and other investment specialists and close the gaps in their knowledge and leverage our expertise."

Gareth and his wife have a young son of nearly three. "It has been a good time to have a young one running amok at home," he says. "Normally, I might not have been able to spend so much time with him, but it has been incredibly rewarding spending that time with him and my wife. She is a nutritionist and tries to keep me healthy by plying me with weird green juices, which of course is not so easy for someone from South Africa, where high meat intake is kind of a prerequisite!"

He is a proud supporter of the South African rugby team, the current world champions. "I am looking forward to the World Cup again next year," he says, "and will be cheering the boys on from here in Singapore. We have a good chance to win again with the team we have right now."

Spare time is also spent trying to keep fit and lithe by practising calisthenics. "It's a kind of gymnastics, based on strength and movement, and I must say it works for me," he reports. "Otherwise, I try to find time for a game of golf with the guys and the occasional game of poker with the team. Keep out of mischief, keep active, keep happy and keep laughing, that is what I try to do."