Recalibrating the Portfolios of Asia's HNWIs and Family Offices

The fourth panel discussion of the Hubbis Investment Solutions Forum offered delegates some invaluable insights into the global trend towards private markets and the shift away from public markets. The panel highlighted opportunities to manage risk and volatility through structured products, while preserving some upside potential. And they pointed to the value available as well as the remarkable growth potential of the Indian and ASEAN equity and debt markets. And around the Asia region, they explained, domestic growth and consumption if unearthing some great investment jewels.

These were the topics discussed:

- *What are the main investment themes and the products that will be most relevant in 2H?*
- *How will you help clients shift mindset, investing style and portfolio holdings as the market transitions to a more volatile phase?*
- *Risks and opportunities for 2H 2018? How are you delivering performance? Managing risk?*
- *What Asian Markets offer the best value? What's your view on China?*
- *What is your current thinking about the role of fixed income and credit in HNW / UHNW clients' portfolios?*
- *What are the prospects for US dollar interest rates in the coming 12 months?*
- *Equity - where is best? Where is worst?*
- *What must be considered when investing in emerging markets?*
- *What's the role of structured products in 2H 2019?*
- *Any role for passive and index products?*
- *What's the role for private debt and alternatives within portfolios?*

PANEL SPEAKERS

- **Johan Jooste**, Head: Rates, Bank of Singapore
- **Martin Goerojo**, Director, Capital Markets Investment Products - Wealth Management, Asia Pacific, Citi
- **Laurent Lequeu**, Head of Portfolio Management, Lumen Capital Investors
- **Anand Ramachandran**, Partner & Fund Manager, River Valley Asset Management
- **Olivier Monnard**, Head, Markets Products Specialist, Wealth Markets Products & Sales, Standard Chartered Bank
- **George Boubouras**, Managing Director & Chief Investment Officer, Caledonia Pacific Capital Partners

Link to Content Summary page
Link to Photos
Link to Event Homepage

hubbis

THE KEY TAKEAWAYS

Public to private

Volatility and a more uncertain outlook have been encouraging more investors to move from public to private assets. Clearly, a longer-term horizon is required to give up liquidity, and the private investments therefore better suit those with the ability to hold for the medium to long term.

Greater liquidity in the private markets

The vast and rapidly growing volume of money seeking private equity or debt to some extent mitigates the lack of capital markets liquidity available for these assets. This has encouraged more risk to be taken out of the public markets and into private investments.

Cash in waiting

Another strategy is to de-risk portfolios somewhat from public market exposure and the associated volatility and put in cash or cash equivalents while waiting for more normalised, or more clement, market conditions. A waiting game.

Structured investments

Structured products are an interesting means of playing risk while defending on the downside. Clearly, the upside will be limited as a quid pro quo for the downside protection, but with most panellists expecting the major Western market indices to be lower by the end of 2019 from current levels, this is a fair trade-off.

Yield vs negative yield

As sovereign debt in the Western world moves seemingly inexorably towards negative yields, the hunt for yield is on. Structured products can offer some yield enhancement as well as downside protection.

Income is more valuable

In a low and falling rate world, any yield is valuable. An investor noted that income in Asia is rising in the form of dividends, while yields on government, corporate and high-yield are appealing, especially relative to the US, Western European and Japanese markets. Singapore REITs offer low risk and higher yields.

India and ASEAN shine

In 2010 China was a USD6 trillion economy and today USD13 trillion. India and ASEAN are today where China was in 2010. And valuations in those markets are reasonable, while economic growth is at or above the levels of China, which is slowing down.

Look domestic

Domestic growth in those Indian and ASEAN markets are especially appealing, as is China selectively, which is enjoying a further boost from China's fiscal impetus. The impact of massive infrastructure is also a key area to focus on. Stock and sector selection is vital, as is transparency of cash flows.

Grow slow

As the panel had many decades of life and investment experience, they advised investors to think long term, to avoid emotional buying and selling and to seek long-term capital and income growth.

Gold shines

Some panellists expect the US dollar to weaken in the next year or two, hence gold is a good hedge both against dollar and economic weakness.

MARTIN GOEROJO
Citi

"**THERE IS A REALLOCATION GOING ON** at the moment for listed assets, taking profits and moving funds into private equity, and private debt," an expert stated, on opening the discussion. Clearly, there is a liquidity trade-off but investors are prepared to locking these assets away and the remainder of spare funds are into cash in anticipation of a return to normalised return expectations in the public markets."

"The remarkably low rate environment is indicating there should be a correction in volatility in listed equities," said another guest. "So accumulating cash in anticipation of that is a sensible move. Moreover, while yields are so low, dividends and general distributions in the region are improving."

Structured products

"Investors can certainly benefit from structured products offering some sort of prediction on the downside," came another voice. "Partial or fully protected and principal-protected structures are in favour and if you are braver you can bet on the downside. In short, there is a variety of different solutions that you can consider that cater to current markets amongst the private clients."

Another guest commented that the key issue on the rates side in is the lack of yield available amidst the outlook for extremely low or often negative yield bonds and the incredibly tight

OLIVIER MONNARD
Standard Chartered Bank

ANAND RAMACHANDRAN
River Valley Asset Management

spreads on non-sovereign debt. He explained that structured products if carefully constructed can offer yield enhancement as well as some downside protection.

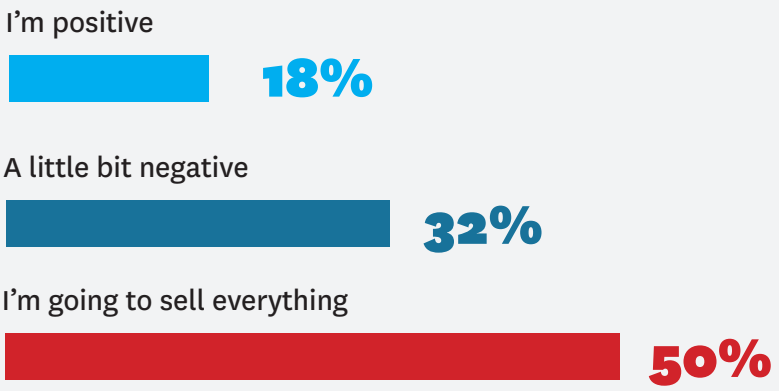
"Listening to the conversation and seeing that we feel uncertainty generally about future direction for the markets," came another view, "I feel that there is a lack of clarity as to whether to take money off the table or keep it in, but I do feel that structured products are a great means to keep exposed to markets but limit downside."

Look at India and ASEAN

A panel member highlighted the appeals of multi-asset strategies. "Even with this year's rally," he noted, "markets are not so expensive today. Secondly, the trade conflicts between the US and China could go on for a long time, so investors should not attempt to forecast what might happen. Asia still looks very cheap and we want to continue to play that growth. China is a USD13 trillion economy and slowing down, but if you look at India and ASEAN they total about USD6 trillion today, which is where China was in 2010. The key in some of the South Asia and Southeast Asia markets, for example India and Thailand amongst others is political stability. But assuming these are ok, there is massive investment in infrastructure across the

LAURENT LEQUEU
Lumen Capital Investors

GENERALLY - ARE YOU POSITIVE ABOUT INVESTMENT MARKETS?



Source: Investment Solutions Forum 2019 - Singapore

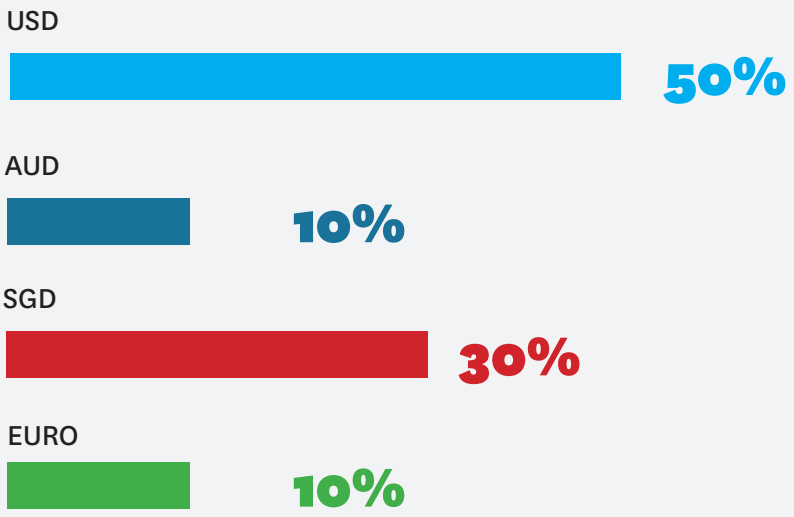
region. In short, the southern countries of Asia are on the same path as China was, so there are many opportunities, especially domestic-driven stories, across this region."

Keeping it domestic

"I agree that there are plenty of interesting opportunities," said another expert, "but what will be very important is focussing on cash flows and the visibility of cash flows because that's how you protect against volatility. For example, in China there are a lot of sectors and companies which could get impacted by what goes on between the US and China but on the other hand, there is a vast domestic consumption sector and with the stimulus happening in China in the domestic sector, there are good opportunities. There are Hong Kong-listed companies offering incredibly low PE multiples and decent yields with strong cash flows but that have been sold down due to collateral damage. Stock picking and sector picking are vital, as the indices in general might now move, but individual investments can. There will certainly be more and more divergence in terms of sectors and stocks."

JOHAN JOOSTE
Bank of Singapore

WHICH CURRENCY IS MORE APPEALING



Source: Investment Solutions Forum 2019 - Singapore

A panellist commented that selected equity investments offering yield and relatively low risks, for example Singapore REITs, are appealing for investors in such a low rate environment.

Looking at Asian yields

Another expert said he was not so keen on structured products, preferring direct exposure instead. "The Asian high yield market offers about 7.3% right now, and with US Treasuries so low and yield dropping back there, the spread is 5% or more. And the duration environment offers a three-year opportunity to pick up a huge yield differential."

A guest highlighted Indonesian equity and bonds, both of which offer considerable yield and upside potential, he advised.

Moreover, with the Asian economies generally more robust than the developed economies, the credit outlook for companies in the region is preferential to those in the Western economies.

Take it slowly

A guest said he personally follows the concept of diversification across asset classes and within asset classes. "Make money slowly is good advice I heard long ago," he commented. "Now I am older I can say that approach has worked. I have avoided the emotional reaction of going in and out and I can attest to the fact that aiming to make money slowly really does work, so a longer-term perspective is required and pays off."

GEORGE BOUBOURAS
Caledonia Pacific Capital Partners

Gold's appeals as a defensive asset

Asked to offer an idea for the next year or two, another expert said the US dollar is likely to weaken and therefore gold is a good buy. On June 20, the day of the ISF event, gold closed at USD1340 an ounce, up from USD1276 on May 28 and on the way towards the USD1409.70 closing on June 28.

Buy long duration exposure, said another expert, because if you are not leveraged the returns are excellent and the risks are very low, while the returns in the form of yield are appealing in comparison with the general market. ■