

The Delicate Art of Cultivating Investment Portfolios for Asia's High Net Worth Clients



Michael Levin, Head of Asset Management, Asia Pacific at Credit Suisse Asset Management is a keen gardener. At his home in Hong Kong, he has a passion for planting, nurturing, and cultivating, knowing that the best results take great attention and, of course, time. He applies this to his working life, helping to structure investor portfolios knowing that market fluctuations should be set against global economic growth and fundamentals, especially in Asia, and ultimately aiming to develop reliable, secure returns for the firm's many private and institutional clients. Hubbis met up with him to discuss, inter alia, his passion for the markets, gardening, and the team ethos.

LEVIN SAYS “INVESTING IS ONLY EASY IN RETROSPECT.”

At the beginning of 2018 it certainly was not easy and turned out to be the worst year for equities since 2008 while fixed income markets broadly sold off. It was almost the mirror image to 2017, with over 80% of global indices down, while in 2017 over 80% of indices were positive.”

Intimations of stability

Looking at 2019, Levin sees some fascinating dynamics. “On the fixed income side, with the Fed hikes and credit spread widening, we began 2019 with handsome yields and a more favourable monetary policy outlook,” he observes. “And the flattening of the curve means investors are not paid for taking incremental duration risk. This created a more attractive risk-return opportunity in short duration, high credit quality fixed income instruments

“In short, I would say that it is a more attractive investment environment today than it was 12 to 18 months ago.”

with appealing yields. After years of a dearth of yield, one could put money to work wisely and generate returns without taking undue risk. I see this continuing for the remainder of the year with relatively stable credit spreads and low default rates.”

Stepping back, Levin explains that part of the impetus for both the equity and fixed income rally earlier this year was the softening of the Fed’s monetary stance, with more accommodative commentary from Fed Chairman Jerome Powell.

On the equity side, I think a disproportionate amount of the

returns available for the year have probably been taken in Q1,” he comments. “Returns are also improving for hedge funds, which have adapted to a more difficult environment, and we see flows generally increasing in alternatives. In short, I would say that it is a more attractive investment environment today than it was 12 to 18 months ago.”

China’s monumental changes

Levin shifts his focus to regional trends. China, he notes, has been the best performing equity market, but is still relatively cheap. “You can build a pretty healthy portfolio in China at about 11 times forward earnings, a 3% to 4% dividend yield and double-digit ROE with attractive fundamentals. And obviously we have catalysts like the ‘A’ Share inclusion. In Chinese fixed income you also have the

Bloomberg Barclays inclusion as of April 1st. China has the third largest bond market globally and global investors hold less than 3% of the market. It’s the biggest opening of a capital market in history and a unique opportunity for investor’s to diversify their portfolios geographically.”

The intersection of Levin’s three lines

Levin describes the three key business lines for Credit Suisse Asset Management in Asia. On the distribution side, the firm offers institutional and private wealth clients in Asia access to a global



MICHAEL LEVIN
Credit Suisse Asset Management

spectrum of quality asset management capabilities. “We work closely with our private bank clients, with third-party private banks, and institutionally on a pan-Asian basis, to provide access to differentiated investment capabilities across the globe. I believe we have been successful because we are client-centric and self-disciplined about which products are genuinely best-in-class.”

On the portfolio management side, he elucidates, the firm began its local investment capabilities in the region in 2012, building out from fixed income, equities, and real estate. “We have delivered top-tier performance in the Asian fixed income space, both hard currency Asia corporate bonds and local currency bonds. On the equity side, we have built up a franchise focused on income-oriented equity investments on a pan-Asia basis. In real estate, we have been very active in physical real estate in Japan, Australia and New Zealand and we are increasingly opening up to markets across Asia.”

China is on the top of his mind. “We aim to be a leader in

Getting Personal

Levin hails from Livingston, New Jersey in the United States. "My most formative educational experience was at Phillips Exeter Academy, which is a boarding school in New Hampshire," he explains. "Beginning there at 14, it was really where I learned to learn, and to love learning. I learned to think, and problem solve." After that he was an undergraduate in The Wharton School at the University of Pennsylvania, graduating with a degree in Finance.

A keen sportsman during his younger days, Levin retains his passion for sports today. "I am now more a fan than a player. Growing up I played every sport under the sun and spent every waking hour I could outside playing with my neighbours. I love team sports, which to me foster many important qualities that apply to being successful in business such as collaboration, preparation, discipline and a winning mentality."

On the career front, Levin was lucky enough to have met a mentor early on in his career in the form of Larry Hite, one of the founders of Mint Investment which was the first billion-dollar CTA and also the first hedge fund initiative of the Man Group.

"I had the privilege of working for him over many years and throughout my career he has continued to be my mentor," he reports. "This helped propel me into the asset management industry. Larry always empowered and supported me to pursue new opportunities, new initiatives and to be entrepreneurial. He sponsored funds that I managed and even to this day he is a wonderful guide, advocate, mentor, and friend."

Levin is married with what he describes as their three beautiful daughters, twins of 11 and the youngest just turned nine. Hobbies today for Levin include gardening. "Gardening is consistent with my personality," he observes. "I love the idea and the process of planting a seed, nurturing your crop and harvesting - seeing the result of something that you invested in. Our garden in Hong Kong has tomatoes, eggplants, peppers, herbs, and now I am growing a pineapple, which is a multi-year process."

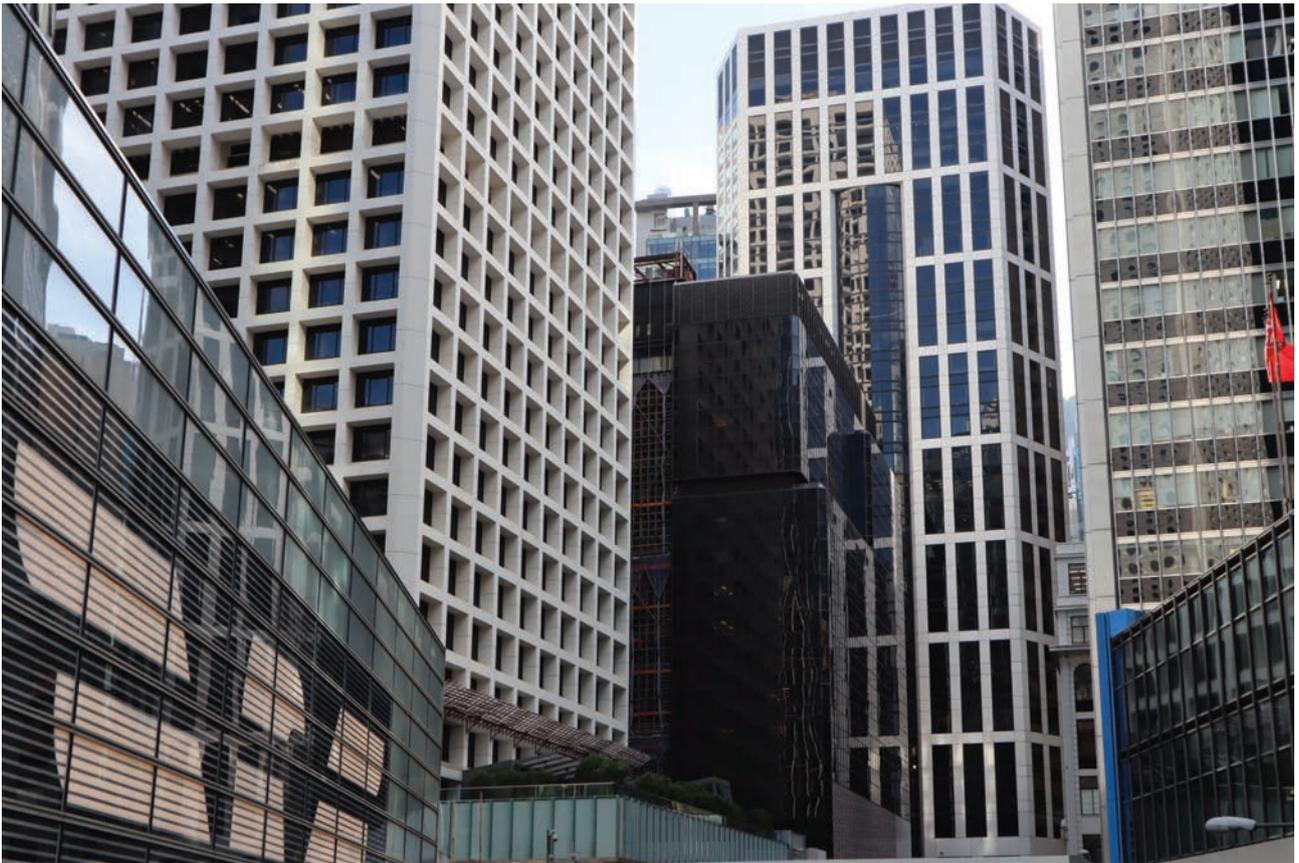
Levin loves his life in Asia. "Coming to Asia has been my best career decision. Being a part of Credit Suisse to help develop the business, cultivate a collaborative culture and working as a team to service clients in Asia is incredibly exciting and rewarding. Asia is a vibrant, dynamic and fertile environment for growth. People are receptive to change, welcome new ideas and embrace new relationships. It has been a wonderful experience."

offering global investors access to Chinese equity and fixed income markets. The biggest shift in the geographic complexion of investor portfolios over the next decade will be into China."

The best of both worlds

That leads Levin to explain the third key business line, which is the firm's partnerships. "We try to identify premiere partners in key geographies," he reports.

He gives the central example of the firm's joint venture in China with ICBC Bank, the largest bank in the world. In partnership, they have created ICBC



Credit Suisse Asset Management, arguably the most successful asset management JV in China with over RMB1.2 trillion (more than USD180 billion) of assets.

“The ability to work closely with such a strong onshore partner who has corporate access, political insights and a deep understanding of market dynamics is invaluable,” Levin explains. “This gives our investors the benefit of local presence and expertise complemented by security selection, portfolio construction, and risk management of our offshore team, encapsulated in a structure that is suitable for global investors with daily liquidity UCITs funds. It’s the best of all worlds.”

As an aside, Levin also notes that gradually Chinese investors will also move into offshore markets. “It is an inevitability,” he

observes. “My impression is that the approach from China has been very thoughtful and responsible, trying to find the balance between offering increased access for global investors to allocate into China and enabling investors onshore to grow their offshore holdings. It’s useful for institutional and individual investors to be able to diversify their portfolios across geographies and investment strategies. We seek to serve as a bridge in both directions.”

Prepare for the ambiguous

Levin closes the discussion with some observations on how investors should position themselves. “The future is always uncertain,” he remarks. “The difference is in how we prepare for that uncertainty. If you look at general market conditions, we have had quite

an extended run with some doubt about the sustainability of strong global GDP growth, but there are still plenty of opportunities out there. My suggested approach is not to try to forecast unpredictable outcomes, but to build an all-weather, robust and resilient portfolio diversified across asset classes, strategies and geographies with attractive risk-return profiles.”

He adds that there will be corrections, there will be a bear market in equities, and in fixed income. “These things will happen, so my advice is that you position your portfolio to be well-diversified across uncorrelated investments that are consistent with your risk tolerance. In short, take this opportunity now to nurture and fortify your portfolio. It is more about time invested in the market than timing the market.” ■