

# The Gatekeepers: Adapting wealth management strategies to a new era

*The fifth panel of the forum was designed to cover a wide variety of ideas and theories about the different approaches to wealth management and portfolio positioning as the industry faces some existential challenges and as the financial markets transition to a more volatile end-of-cycle phase.*

*These were the topics discussed:*

- *How will you help clients shift mindset, investing style and portfolio holdings as the market transitions to a more volatile end-of-cycle phase?*
- *How would you explain your investment process and philosophy?*
- *Given the positive market performance up to the end of 2017. How can you explain what value you added to your clients?*
- *Impact of key business mega-trends of passive investments, fees, transparency, regulations; How are you adapting to grow?*
- *You had a great year in 2017. What's your revenue replacement strategy for the next two years? Is there a likelihood you will see outflows this year?*
- *How important is credit risk today?*
- *How is the move to advisory and discretionary coming along?*
- *Given more challenging market conditions - is advice is more important than ever?*
- *Opportunities of key market mega-trends of millennial, baby boomers, women empowerment, ESG, SRI. How are you capitalising on these?*

## PANEL SPEAKERS

- **Malik S. Sarwar (chair)**, CEO, K2 Leaders, USA
- **Bryan Goh**, Chief Investment Officer, Bordier & Cie
- **Jean-Louis Nakamura**, Chief Investment Officer, Asia Pacific - Chief Executive Officer, Hong Kong, Lombard Odier
- **Rohit Jaisingh**, Head, Equity Investment Products, DBS Bank
- **Tuck Meng Yee**, Partner, JRT Partners
- **Marc Van de Walle**, Global Head of Products, Bank of Singapore
- **Chee Loong Chong**, Wealth Business Leader, Singapore, Mercer

**E**XPERTS GATHERED AT THE HUBBIS ASIAN WEALTH MANAGEMENT FORUM to focus upon the future of wealth management as seen from the perspective of the wealth industry's



MALIK S. SARWAR  
K2 Leaders (USA)

product gatekeepers, who have a dual aspect on the markets - they need to protect their firm's clients and they also need to have one eye firmly on their firm's profitability and sustainability.

"The market is unclear, we are entering into a new phase in the markets, with developed market equity and credit risk increasing the most," a panellist observed. "The key is in the evolution of the US Dollar which is directly linked to the perception of the rate of monetary normalisation in the US, indicating risk has increased."

Another panellist concurred. "We are at the cusp of seismic change," he warned, "as interest rates, which have been low for a long time, are set to increase. As the incredibly easy liquidity conditions prevailing for almost a decade dissipate, there will be a secular change in trend and therefore some dislocations, there will be increased volatility, there will be draw downs."

Another panel member challenged that view, saying that 10-year US Treasuries rates are around 3% and the projection is for them to be no more than 3.3% in 18 months. "That is not a seismic shift," he said.

"It is all about cost of capital," came the reply, "especially at the short-end of the curve, which directly affects the cost of borrowing in order to lever-

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BRYAN GOH  
Bordier & Cie

age and invest. We are no longer in a time when pretty much anything would give you a positive carry and the outlook for prices was almost universally positive. The rules of that game have changed.”

One speaker said that faced with the key visible trends, their firm was de-risking portfolios currently.

“We think fundamentals are actually fine, it is more fundamental evaluation of the more liquid parts of the markets that is the problem, so we feel that a move to less well-known parts of the market is sensible.”

### Active versus passive - place your bets now

The discussion turned to exchange traded funds (ETFs), a go-to passive-beta strategy for investors and a perennially popular choice for playing almost all corners of the mainstream, tradable financial markets.

However, many gatekeepers are choosing not to aggressively sell ETFs due to low margins compared with managed funds.

In the USA, a panellist noted, the market is still flowing towards ETFs, whereas in Europe it is more balanced between the two types of approach.

“Advisors make less money on ETFs than in actively managed funds,” observed an expert, “but ETFs certainly have their place in discretionary mandates where we charge a fee for advice.”



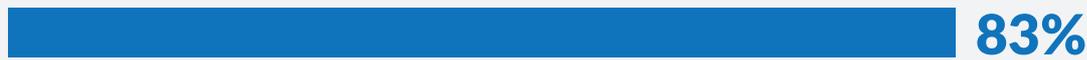
JEAN-LOUIS NAKAMURA  
Lombard Odier

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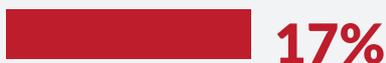
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## ARE YOU GENERALLY -

Positive about investing in fixed income



Negative about investing in fixed income



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Source: Hubbis Asian Wealth Management Forum 2018

Fund managers who can not only understand active strategies but also compete with low-cost AI and model-driven investing, knowing what the crowd is going to do before they do, are highly sought-after.

“Clients are indeed beginning to ask for ETF strategies, which are cheap and easy to implement but do tend to lose value from rising interest rates,” explained one panellist. “Our bias is for smart, active strategies instead, which have a higher alpha delivery, even in the bond markets.”

**Ethical investment is trending**

Advising family investors involves a lot of politics, counselling and understanding of inter-generational differences. One growing trend among the younger generation is for ethical, socially impactful, responsible investing, known as Environmental, Social and Governance (ESG).

When integrated into investment analysis and portfolio construction, this may offer investors potential long-term performance, and ethical, advantages.

Although this trend is in its infancy in Asia, a common way of incorporating ESG is ‘stewardship’, and it is becoming increasingly important to develop initiatives driving stewardship investment as well as developing training to understand this style of investment and then to advise clients accordingly. “We work with the younger generation, rather than just advising them,” explained a guest.



TUCK MENG YEE  
JRT Partners

**“ACTUALLY, WE ALL NEED TO TAKE THE SIMPLEST ROUTE TO A PARTICULAR SOLUTION TO A PARTICULAR NEED AND WHILE THERE ARE TIMES WHEN THAT INVOLVES COMPLEXITY, IT SHOULD NOT BE FOR THE PURPOSE OF OPAQUE PRACTICES.”**

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**DO YOU THINK CLIENTS ARE TOO HIGHLY LEVERAGED TODAY?**

Buy emerging markets



Sell emerging markets



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Source: Hubbis Asian Wealth Management Forum 2018

“It is no longer top-down leadership but coaching, using the beneficiary generation as experts in the fields of technology, social media marketing and cloud services.”

**When the going gets tough**

The panel then moved to discuss transparency, as there is increasing debate about how much is too much information when sharing with clients. “The world is flooded with information and starved for knowledge,” argued a panellist.

“In wealth management we are the experts, ploughing through the plethora of information to drill down to relevant facts to support their objectives. We don’t actually need to tell clients everything.”

An individual approach to disclosure is key, as no two clients are the same. Panellists felt that it was important to really try to understand their clients from day one, building up trust with them.

“Clients only want to know when things aren’t going well,” commented a guest, “and then it’s a question of risk management, liability and balance. It’s not so much about education, it’s really about handholding when the market tanks, being there and explaining what has happened, why you have done what you have done, being upfront.”



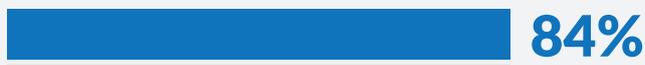
MARC VAN DE WALLE  
Bank of Singapore

**WHAT IS CLEAR IS THAT PRODUCT GATEKEEPERS ARE FACING NEW CHALLENGES ADAPTING THEIR STRATEGIES TO UNCERTAIN TIMES. THE UNCERTAINTY IS NOT ALL NEGATIVITY.**

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**DO YOU THINK CLIENTS IN ASIA HAVE ANY INTEREST IN DPM?**

Yes



No



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Source: Hubbis Asian Wealth Management Forum 2018

### Bullish or bearish on cryptocurrencies?

Cryptocurrencies are a controversial subject when deciding whether to advise for or against investing in the concept.

“Cryptocurrencies will come to a bad end!” claimed one panellist. “Watch Blockchain instead, an interesting piece of foundational technology.”

Blockchain, commented one guest, can be compared with email, which was invented in the early 1970s and took 20 years to become mainstream. Blockchain may well revolutionise the financial industry, but the question is, when? “It is about being prepared and educating yourself and clients,” elucidated a panellist.

Taking the leap and investing in an Initial Coin Offering (ICO) or Initial Token Offering (ITO) is seen by some wealth managers as a quick and cheap way to get educated within the crypto-ecosystem. This preparation is important, as one attendee warned, “99% of those who invest into cryptocurrencies do not understand the technology behind it.”

### Multi-Asset Strategy

Another portfolio trend is the multi-asset strategy, the latest name for balanced funds, or investing in several asset classes at once. One area in which a multi-asset strategy can be useful is when a client has a high proportion of their wealth in illiquid assets



ROHIT JAISINGH  
DBS Bank

and has only a small liquid portion to play with, in which case it makes sense to aim for diversification between market risks.

Guests agreed that accomplished wealth managers already provide multifaceted investing regardless of the liquidity spectrum. “Multi-asset is a marketing moniker that describes a tool in our kit rather than a panacea; and it is not a replacement for proper strategic asset allocation and portfolio construction,”

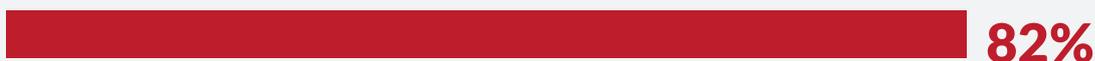
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## HAVE YOU INVESTED IN ANY CRYPTOCURRENCY?

Yes



No



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Source: Hubbis Asian Wealth Management Forum 2018

explained a guest. “Clients are drawn to them, but they do have drawbacks, for example they cannot go short or do hedge funds.”

One panellist summed up the general mistrust of multi-asset strategies by saying, “We should not follow the crowd too much, instead we should run the core of a portfolio in a smooth way through the market cycle and then add advisory satellites to try to satisfy client preferences.” What is clear is that product gatekeepers are facing new challenges adapting their strategies to uncertain times. The uncertainty is not all negativity.

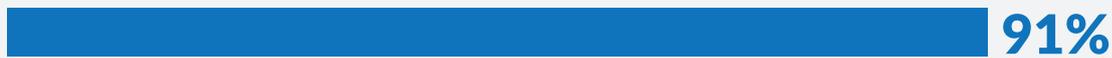
The uncertainty could also be that the fundamentals remain solid in many parts of the market, but valuations that have been pushed to some excess - for example Big Tech - have come off. And in the debt markets, yes, dollar rates have risen but the world might already be at or very close the ‘new normal’ levels. ■



CHEE LOONG CHONG  
Mercer

## WOULD YOU TODAY -

Buy emerging markets



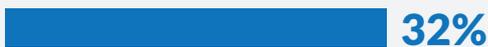
Sell emerging markets



Source: Hubbis Asian Wealth Management Forum 2018

## IN TERMS OF DURATION STRATEGY IN A MULTI ASSET PORTFOLIO, ARE YOU SHORT OR LONG IN THE CURRENT MARKET?

Short



Long



Source: Hubbis Asian Wealth Management Forum 2018