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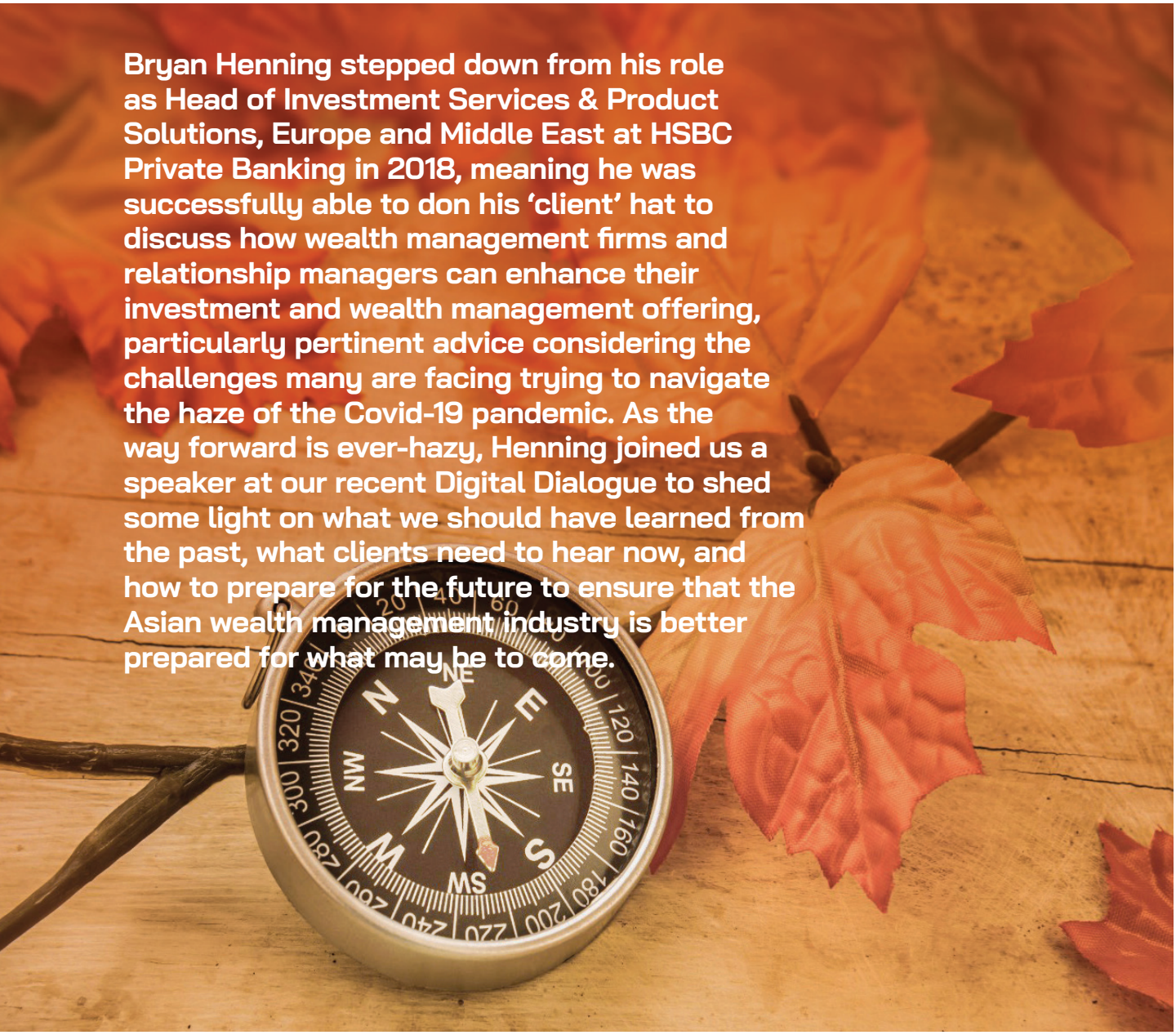
The Last Mile - navigating necessary change in advising clients post the pandemic



Bryan Henning stepped down from his role as Head of Investment Services & Product Solutions, Europe and Middle East at HSBC Private Banking in 2018, meaning he was successfully able to don his 'client' hat to discuss how wealth management firms and relationship managers can enhance their investment and wealth management offering, particularly pertinent advice considering the challenges many are facing trying to navigate the haze of the Covid-19 pandemic. As the way forward is ever-hazy, Henning joined us a speaker at our recent Digital Dialogue to shed some light on what we should have learned from the past, what clients need to hear now, and how to prepare for the future to ensure that the Asian wealth management industry is better prepared for what may be to come.

In his opening comments, Henning notes that the similarities between the recent market conditions witnessed during the Covid-19 pandemic and those seen in the financial crises of the past are difficult to ignore, but with one key difference: this time, all areas of the economy, not just the banking and financial sectors, have been affected by the fallout.

DÉJÀ VU

"We saw fixed income markets dry up, we saw equities market plunge, and we saw volatility blow out in a matter of literally days," reports Henning. The topics of leverage in portfolios, and the construction of clients' portfolios, was brought to the forefront, with the nature of the types of products being promoted to clients, and the consequences of complicated or unsuitable products, ultimately culminating in the importance of the portfolio's quality in itself. "I think theCovid-19 crash shined a big light on how effective one's portfolio construction was. What did you have in your portfolio? How bulletproof was it?"

PROFOUND CONSEQUENCES

Henning turns his attention to the harsh reality that came from the market instability, with many witnessing losses during the turmoil that defined Q1 and early Q2 2020. "People suffered losses, I suffered losses. I think what most people have been doing in the meantime is really trying to recover, and then re-position for what the markets are likely to do going forward."

On the back of these losses, speaking from the perspective of a client, Henning notes that, despite this desire to reposition for the clouded road ahead, the advice that clients may be receiving could be more detrimental than beneficial for the long-term investor, who may instead be pushed into constructing something better resembling a transient or reactionary portfolio. "There seems to be a lot of similar thinking, in terms of how we would invest in the past, and I don't think, certainly in terms of what's being communicated to me, there is not a lot of value-added insight with regards to the obvious massive tectonic shifts in the global economy, society and markets in general as a result of the Covid-19 pandemic."

was characterised by an emphasis on product suitability, the post-2020 frame of mind should be one of evolution. "This time around, I agree it is really a chance to reconstruct your portfolio, have a dialogue that gets into the meat of investing and how we should invest," says Henning, "but it can't be using old thinking. It has to adapt to a new form and a new reality in markets and assets classes that are not going to perform. To make reference to the old cliché on most fund fact sheets, the past is not going to be indicative of the future."

"I am not seeing anyone really discussing the new normal

"We used to have a consultant that came into our firm and he kept talking about the last mile. I never understood then what he meant, but in this case, I understand the last mile to be where the rubber hits the road. It's where the RM and the advisor talk to their clients about the realities of risk and return and proper portfolio construction. It's got to change there if we are going to see a real change in the industry."

THE SECOND SECOND-CHANCE

Looking ahead, Henning comments that this may be a chance for investors to potentially start anew, as investment approaches evolve in the face of the 'new normal' post-pandemic, and products which may have once been acceptable are now minacious. "I think investing going forward is going to be fundamentally different. We really need to differentiate between who is going to survive in the new world and who is gone."

He notes that how, whilst the post-2008 financial crisis attitude

and how a portfolio should be looked at going forward," reports Henning, elaborating on the notion that the advice being dispersed need to either evolve, or clients may struggle to form a portfolio capable of weathering the next storm which arises.

SPEAKING THE SAME LANGUAGE

Putting on his client hat, Henning reports the need for firms to translate the holistic investment offering, products and terminology surrounding risk into a language that the client can process, but that this

BRYAN HENNING

is something that many wealth management institutions fail to do effectively. "They don't have a way of explaining risk."

In turn, this highlights the potential limitations institutions face in explaining to a client the market outlook for the coming months but lacking the methods to do so. Henning reports that many firms lack the ability to showcase the risk of a portfolio, or demonstrate what may happen to said portfolio when placed against the context of a number of potential scenarios, be that an L, U or the, in his opinion, unlikely V-shaped economic outlook on the back of the pandemic.

"Show me asset allocation, show me the different ways to compare each asset class and how they correlate, show me how you measure risk, how you measure volatility, so I can understand outcomes," Henning exposits. "I can do this myself, but as a private bank you should have a tool. It doesn't even have to be that fancy, but frame the conversation for me and explain to me all the elements in my portfolio or your suggested portfolio."

CHANGING THE CONVERSATION

In this new world, the value proposition presented by the discretionary portfolio management (DPM) offering seems increasingly favourable, but this firmly relies on the strength of the mind behind the construction, and demonstrating both resolve and confidence, as well as offering reassurance, in the face of uncertain times when communicating with clients. "I think, from my perspective, show me. Show me that you understand risk and can explain it to me, even if I am not a professional."

This reassurance extends for the need to demonstrate to the clients the holistic blueprint for their portfolio, demonstrating the risk, investment philosophy and strategy behind the allocation of the client's resources. "I keep getting phone calls, I get shown, for example, a global quant fund with some of our favourite names - Google, Amazon, Visa. Yeah, they are great companies, but why that? How are you going to construct my portfolio? How does this fund fit into the overall picture? How much is optimal? Why?"

Henning draws attention to the need for relationship managers to differentiate themselves by discussing the risk in equal measure to the investment yield, driving a rounded discussion, and thus benefitting the client in the long term, rather than pushing for the construction of a portfolio with a short term view, driven by the client.

"We are not at that level of conversation seen in most of the private wealth management relationships in Europe," comments Henning. "We are not having the right conversation, we don't have the right tools, they are not presenting things properly, they are not showing scenarios." He notes that the real change to encourage, as we descend from the peak of the Covid-19 pandemic, is that of having a different conversation, and as such driving a different outcome, and changing the model in which private wealth management professionals operate to ensure greater support, rather than scrambling to make up for losses though short term opportunities. "I wonder, if this isn't the catalyst this time around, I really wonder if not then what would need to happen to trigger a real change in the approach of traditional wealth managers."

DEFINING THE ROLES

When RMs do speak to their clients, the conversations may air on the colloquial side, stemming from the regional attitude towards wealth management being that of it being a more deeply personal topic of discussion. Henning stresses that, whilst this intimacy is what may be expected between the client and RM, there is a need for a degree of hard, fact-based conversation, something that should be driven by investment advisors, if not by the RMs themselves.

"I think the days of having one contact point with the client, if they are not already, they should be long over. In some of the organisations I have worked with, we made a conscious decision to split who could do what - relationship managers managing relationships, and investment advisors managing the investment advice," Henning elucidates.

He acknowledges, however, that the personal connection cannot be neglected during this period of uncertainty. This is especially important considering the current context, as tough calls and a lack of face-to-face communication could strain the relationship with clients. The RM needs to know the client, and treat each individual in accordance to their personal preferences, being as idiomatic or as pragmatic as each client would expect.

GUARDING THE CASH PILE

In light of the uncertainty in the global economy, Henning relays his lack of confidence in the handling of the current situation. He notes the seemingly universal hope that the markets will witness a V-shaped recovery, something being presented almost as fact, rather than the more-likely elongated U - shaped trend that we may witness, an idea which has seemingly been under considered. "I think we are living in this false bubble of hope," he reports. "I don't believe in market timing, but right now I don't think we are seeing the real economic picture."

Turning his attention to the bigger picture, Henning notes the rising geo-political tensions, with the US Presidential election on the horizon, fracturing the population between Republicans and Democrats, with tensions furthered globally by the nerves surrounding the potential of a second wave of the virus, similar to that witnessed in Singapore. Add in the uncertainty surrounding the US and China trade contentions, championed by a certain controversial political figure, and the picture painted in a rather bleak one.

"And then the last point is, if you are going to show me something to get me out of cash, please show me an asset allocation that makes sense for the new world, and please show me how you are going to fulfil that asset allocation with products that are not what they were before," says Henning.

He draws attention to a detailed list of requirements, using a thematic fund as an example. "I want a fund product that could be thematic, but I want to recognise that value and growth is no longer the conversation, it's value and growth within sectors that are going to survive in a new world," Henning explains. "I really haven't had this conversation with anyone so far, they haven't shown me (a product) which recognises the new world. It also seems that everyone is thinking the same thing - biopharma, Big Tech etc... that's feeling like a very crowded trade to me."

WHERE DO WE GO FROM HERE?

Looking ahead, Henning shares his perspective on the steps we should be taking in order to move the industry forward, noting the need for RMs and investment advisors to engage in deeper conversations with clients, this being what he terms as "the last mile." Advisors need to ensure that they capitalise on their tools and training, ensuring appropriate application and incentivisation, and imbue confidence in the clients, bringing everything together to ensure they are giving the client the optimum offering, and that they don't fall at this final hurdle.

Regarding the fee model, Henning comments that whilst it may be possible to draw revenue from both advisory and transactional fees, it's hard to formally draw the line with such an approach, but in the end, it's important to ensure that the model is sustainable and easily managed.

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