The Quest to Elevate the DPM & Advisory Investment Propositions for Asia's Wealthy Private Clients

RBC Wealth Management is on a quest to elevate and differentiate its investment offering, and to encourage more of its HNW and UHNW clients into discretionary mandates and advisory. As the private banking arm of the global Canadian banking giant that today has a market valuation equivalent to just over USD142 billion, RBC Wealth Management in Singapore and Hong Kong together boast around 70 relationship managers, making the firm a sizable competitor in its target segments in the region. Within the upper tier of wealthy clients in Asia, the firm has also been developing a nuanced focus on what it calls Asia's Global Families, those very wealthy clients who have strong economic, family or second-residence connections to the US, Canada, and/or the UK and whom the bank believes it is ideally placed to serve. Hubbis met again recently with Juan Aronna, the Head of Investment Solutions and Products for RBC Wealth Management in Asia. He offered his updates on their offering and further insights into how they have been elevating their investment solutions capabilities, in order to boost discretionary management and further differentiate their advisory offering.

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JUAN ARONNA
RBC Wealth Management

Royal Bank of Canada positions itself as a leading global financial institution with a purpose-driven, principles-led approach to delivering leading performance. The strength and size of RBC might surprise some who do not know the bank well - as Canada's biggest bank and one of the largest in the world based on its C$142 billion market capitalisation, RBC has a diversified business model and has more than 97,000 employees across Canada, the US, and 27 other countries.

According to the bank's literature, RBC Wealth Management has C$1.4 trillion of assets under administration, C$991 billion of assets under management, and more than 4,800 financial consultants, advisors, private bankers, and trust officers. And the truly global organisation has been expanding its reach and capabilities in Asia, where the team believe they can add a great deal of value leveraging their global expertise and broad range of offerings.

Investment expertise and consistency

Professional investment knowhow is at the core of the firm's success worldwide, and the bank is driving its model forward in the Asia region emphasising these skills. Juan Aronna is Managing Director and Head, Investment Solutions and Products, at RBC Wealth Management for Asia. He is responsible for investment solutions and products, including discretionary management, advisory products and execution.

He heads up the team of investment professionals based in Singapore and Hong Kong and is also a voting member of the RBC Asian Investment Committee.

He first arrived at RBC Wealth Management in Asia in 2014, moving from UBS Wealth Management, Asia Pacific. While at UBS, he held the roles of executive director and head of Asia Portfolio

Key Priorities

Aronna reports that his immediate focus is to communicate to clients that discretionary portfolios performed better than self-managed and advisory portfolios since the market downturn. "We estimate that DPM mandates outperformed by 8% in 2022 and we need to bang that drum loud and clear."

He elaborates on this, maintaining amidst more difficult conditions, there is no longer a rising tide of momentum and money to lift asset prices, and clients genuinely need professional advice and optimised portfolio management. "This is a major thrust for us as we target the conversion of transactional revenues into more stable returns, but in a very positive way by delivering better performance for our clients," he says. "That will be the biggest priority for the foreseeable future."

The second key is to complete the creation of its new strategic asset allocation product, and to deliver it to clients.

"As I mentioned earlier, we are aiming to innovate around new ways of delivering active advice to help non-discretionary clients with their longer-term asset allocation," he explains. "The truly DIY type investors will likely continue their own way, but there is a middle ground of client that is very receptive to advice and to whom we can offer a premium type of advisory service. The bigger picture around this mission is to increase the level of trust amongst our clients in what we are doing.

His third priority is to attract and also retain talent in a highly competitive market. "We have a good track record here, but we do want to improve further," he says. "Actually, I have worked with a number of our team members for many years, and with seven of them for more than 15 years, which is somewhat unique, I think. We want to continue with that type of teamwork and ethic."

Management Hub, as well as head of Investment Solutions Singapore for 12 years. These roles gave him a multi-faceted wealth management experience in financial markets, investment discipline, portfolio engineering and risk management, and processes and systems.

More challenging times

Aronna opens the discussion by highlighting the tough conditions clients have faced since early 2022, and noting that although many clients have been underwater, most have not wanted to pare back their portfolios. "Those whose portfolios are heavily concentrated, for example towards tech, are suffering the most," he reports. "We also saw the spate of disappointing quarterly results from US global technology firms recently, yet clients often want to stick to those stocks in order to try to catch up, which might be a trap."

He adds that in his view, inflation is here to stay, but some clients may struggle to cope with that by trying to chase yield. "The biggest need amongst clients is capital protection in case of a real recession ahead, but they also want or expect to have full upside, or at least as large an upside as possible," he says. "Higher rates are at least now helping us be able to build these types of structures, delivering perhaps a 90% floor, but with options built in that help clients to participate in more of the upside potential."

Careful positioning

As to more general positioning, Aronna says bonds are back in favour selectively and at the longer end, as they do not anticipate further rate hikes. In equities, RBC

Getting Personal with Juan Aronna

Juan hails from Mar del Plata in Argentina, and after his schooling moved to Switzerland to study macroeconomics at the University of Fribourg in Switzerland, where he also obtained his Masters.

He reports that his early career was with UBS, and he was part of their international mobility programme, and faced with an array of choices such as New York, London, and Singapore in 2002, he chose Singapore and says it was the best decision he ever made. "Singapore was growing rapidly and diversifying, and I was really lucky to be part of a rapidly rising financial and investment industry here, and my career progressed in ways that surpassed my expectations. I have been really fortunate to be part of this momentum."

He has a son of 14 and daughter of 9, who attend a Green School in Asia.

"I am a banker who spends considerable time talking about ESG and sustainability, and The Green School has its mission to develop the entrepreneurs of tomorrow who will help drive sustainability in our communities," he elucidates, to explain this choice. "There is the standard curriculum we all expect, and the development of this sustainable mindset of people who can think completely outside of the box, who then become solution seekers and providers. There have been 170 children graduate from there, and they have gone on to fascinating things."

Outside of work, Aronna enjoys diving and other leisure pursuits. "I travel a lot for business, so in my spare time I love the tranquillity and beauty of diving. You are disconnected from the world, just there with nature. It is wonderful."

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is focusing on higher yield stocks in developed markets, and they are significantly overweight Asia versus developed markets, meaning they are underweight in developed markets.

He adds that they are generally neutral on fixed income, and prefer longer duration in bonds because, while not expecting more hikes, they also do not anticipate any notable or sudden decrease in interest rates. And he remarks that given prevailing and anticipated conditions, hedge funds and alternatives have moved back into the limelight and RBC is therefore overweight on the hedge fund side.

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Elevating the investment proposition

He remarks that portfolio allocation expertise and risk management skills are key areas of expertise and delivering that to clients is a very important part of their value proposition. "For our work with our target market of Asia's Global Families, we offer targeted insights, expertise, and top-quality advice to ensure that their investment portfolios are resilient and geared towards the long term," he explains.

RBC has also been using MSCI Barra and MSCI Wealth Bench since 2014, boosting the 'scientific' capabilities of the bank for its portfolio management and risk management, as well as delivering the right information and advice in what he calls a consumable and integrated manner.

Aronna believes this has helped deliver more optimised portfolio management advice, lowering concentration risk, and driving towards a better balance between investments, between sectors, regions, and so forth. Additionally, armed with the MSCI tools, they can make projections for the portfolios based on different scenarios.

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Upper tier private banking

Aronna also reminds us that RBC Wealth Management focuses on HNW and UHNW clients around the world, offering a full suite of banking, investment, trust, and other wealth management solutions, from key operational hubs in Canada, the United States, the British Isles, and Asia. The business also provides asset management products and services directly and through RBC and third-party distributors to institutional and individual clients through its RBC Global Asset Management business (which includes BlueBay Asset Management).

In Asia, Aronna notes that RBC not only concentrates on HNW and UHNW clients, but leveraging the bank's global presence, it has focused on what it calls 'Asia's Global Families' in recent years, a nuanced shift in emphasis that he says has proved successful in differentiation and AUM gathering.

Further progress needed around ESG

ESG is always an important topic for conversations these days, and Aronna reports that the bank is certainly focused on the investment aspects of ESG-centricity, but he also notes that they do not yet see this as the key driver for allocations. He adds that investment decisions continue to be led by portfolio management and risk management.

"Nevertheless," he says, "if we see a company that has a poor ESG score, we will not take the risk but we focus first and foremost on investable ideas, on pragmatic ideas, and try to align with the ESG concept wherever possible." But he concludes that most clients remain rather confused about the relevance of ESG today, aside from the broad concepts. "There is much further to go in the world of ESG, including regulation, reporting, and consistent labelling before it becomes far more central to investment decisions," he concludes.

Compliance constraints and caution

Aronna also observes that the regulatory burden around advice is rather challenging when it comes to trying to offer allocation suggestions to non-DPM clients.

"Since 2008 it has become ever more challenging to adapt advice beyond what the regulator sees as the set risk profile parameters for each client," he reports. "We are therefore somewhat constrained in our flexibility to match allocations to risk exposures, which are of course dynamic and constantly changing. In short, we have only modest flexibility to adapt portfolios. If we want to advise clients to markedly change their asset allocation, it really involves a long process."

As a result, he says they are working on ways to innovate around the delivery of active advice in order to be able to better adapt shorter-term asset allocations but still stay within the parameters of the long-term client risk profile and asset allocation plan. "Actually, we need to do this unless we almost by default end up shifting into a very passive mode, which would really be tantamount to the marginalisation of their missions and the value."

Product development

Accordingly, RBC Wealth Management in Asia is building out a new strategic asset allocation product over the coming months. "The new product is founded on our aim to compliantly satisfy what we believe our clients are looking for and what they are expecting from us, and delivering the levels of advice and idea generation they want and need," he says. "We appreciate that they do not want to participate in every stock or idea that we might select, but equally they are not wanting to stay passive on their asset allocations. This will be our new solution to this challenge."

Trusting in the model

Aronna says he is not one of the private bankers who has concerns about the future of HNW and UHNW wealth management, maintaining that the value-add for a leading institution such as RBC is in its client focus, range of products, and its comprehensive and global services and capabilities. "We do not spend time worrying about being threatened by a race to the bottom or by AI-empowered robo-advisories. Actually, I can go further and say we see little impact amongst our client relationships, as we are offering sophisticated solutions and remarkable reach. Instead, we continue to focus on delivering what we know clients need and expect."

He adds that perhaps for high earners who might wish to manage their own wealth using various low-cost operators there might be some marginal impact, but those potential clients have not dramatically changed their behaviour. "And, I really think it will be difficult for any AI or robo to challenge for the business of traditional private banking clients with complex needs," he says.

The front line

At the front line, Aronna remarks that it is important to appreciate that there are essentially three styles of relationship manager: brokers delivering ideas to largely self-directed investors; client advisors on investments and asset allocation; and perhaps the most rounded role - an RM who strives to be a client's trusted advisor and delegates the investment aspects to the in-house professionals to deliver the best advice to his or her clients.

Tailored to suit

But Aronna notes that the RBC Wealth Management Asia investment management team must continually offer RMs the right product suite, regardless of the way they support clients. "This is the tricky part, as our product line needs to be aligned to these different styles and needs," he says. "We accept the fact that these three models exist, and strive to build the right offerings that keep them and their clients happy."

Holistic investment management

Aronna closes the conversation by noting that it remains a highly competitive world, and that many HNW and UHNW clients use the services of a number of private banks or EAMs, and then assess their relative performance. "This is understandable," he says, "but it is not always that easy to make direct comparisons on performance. If, for example, each of the providers is mandated with different risk parameters for a DPM mandate, then the comparisons do not work properly, but at least there is more genuine diversification of risk taking place."

He concludes by remarking that it is invaluable for RBC to provide their clients with holistic advice based on their real risk concentrations and to do so they need a consolidated view across those other accounts with other providers. "In this way, we and the clients will be able to understand their risks better and improve their allocations and optimise diversification and outcomes," he states. ■