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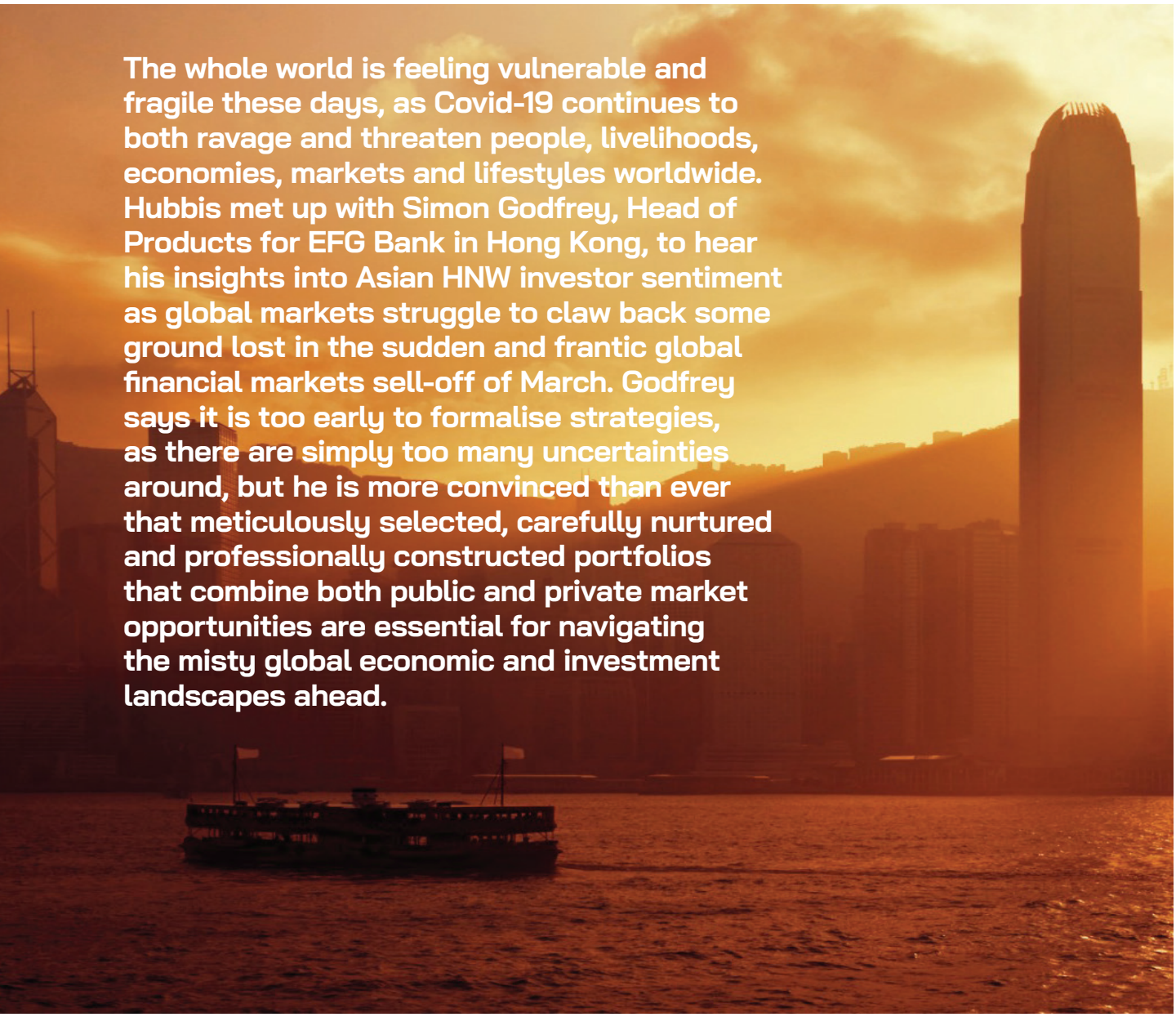
The State of Asian HNW Investor Sentiment in the Aftermath of the March Sell-Off



The whole world is feeling vulnerable and fragile these days, as Covid-19 continues to both ravage and threaten people, livelihoods, economies, markets and lifestyles worldwide. Hubbis met up with Simon Godfrey, Head of Products for EFG Bank in Hong Kong, to hear his insights into Asian HNW investor sentiment as global markets struggle to claw back some ground lost in the sudden and frantic global financial markets sell-off of March. Godfrey says it is too early to formalise strategies, as there are simply too many uncertainties around, but he is more convinced than ever that meticulously selected, carefully nurtured and professionally constructed portfolios that combine both public and private market opportunities are essential for navigating the misty global economic and investment landscapes ahead.

Godfrey begins the discussion by briefly reviewing how clients had positioned their portfolios prior to the February/March sell-off, from which many markets have now recovered a surprising amount of ground lost during those few weeks of greatest anxiety, and how they are positioning their investments currently.

"My general impression," he reports, "is that they remain yield focused, looking at ways to obtain the highest yield in the shortest time, trying in general to reduce the duration of investments. Clients were generally badly rattled by the crisis at its worst; they then attended our weekly webinars on the markets in numbers early on, but have gradually tapered off as markets recover somewhat. Were clients prepared for this type of crisis? No, as virtually nobody could have predicted this, so with markets seemingly ok, even if somewhat over-optimistic, people tended to have been fully invested and perhaps invested with leverage."

SHOCK AND AWE

The March sell-off was incredibly sharp and fast, giving investors no chance to recover quickly, he adds, although EFG saw some considerable interest in their ideas and some fairly smart trading activity when volatility was still very high. "When oil crashed," he notes, "there was very quickly a hunger to find ways of exploiting that, with clients expecting that, actually, oil would recover steadily, and maybe over the medium term rather well. But in general, we have not seen that much long-term thinking in recent weeks, horizons are compressed, and people are really looking for more security."

Godfrey reports that EFG has been consistent in the view of a U-shaped recovery ahead while focusing investors on aiming for some kind of return over a shorter timeframe, and acknowledging that the future path of the virus might undermine that view and lead more towards a swoosh, or even W-type movement in the markets. "In short, we do not expect any quick recovery in economic data, but the slow recovery is being anticipated by the markets, and people are taking things warily and keeping some of their powder dry for more exaggerated opportunities that might emerge later. So, there is a lot of wait and see out there."

Godfrey's Key Priorities at EFG Bank

First, he reports, is to encourage clients to invest more in managed investments, and also DPM, either through in-house or third-party funds, where there is a wealth of professionally managed investments. DPM mandates are also managed by a professional team from EFG Asset Management, with a variety of innovative strategies. "Driving towards both of these goals is, we believe, a better approach for clients and for the bank than we and them always simply reacting and being transactional; we want to encourage a more rigorously planned portfolio approach, with more managed investments and DPM as well fits that well."

He explains that EFG is also trying to increase the number of approved investments it promotes, to make sure they are both filtered efficiently and well adapted to all the different needs that different clients have. "In order to do that," he reports, "we have to invest in terms of research and then do more due diligence so that we can offer more and better products to our clients across the board."

TREADING GINGERLY

Specific areas EFG is concentrating on include the investment-grade credit space and strategies around those beneficiaries of the work-from-home and entertainment-from-home protocols. "We can certainly imagine that there will be a more distanced way of doing many things for the foreseeable future," he reports. "China is also

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SIMON GODFREY
EFG Bank

a core focus, being first-in and apparently first-out, and that is already showing through in the data, so clients have been warming to those sorts of ideas."

Godfrey comments that clients had in general been very much oriented towards the growth areas of the market, areas such as technology that have fared reasonably well, and of course far better than the cyclical sectors that were in any case already unpopular and that remain so. On the fixed income front, spreads have moved out sharply, but there has not yet been an increase in defaults, as those will likely play out over the medium to longer-term, as global economic conditions hit certain corporations head-on. "There will very probably be a significant reckoning ahead," he states.

BUILDING MORE SKILLS

EFG continues to focus on the training and skills enhancement of its CROs. "We, naturally, take the CPD type approach for our CROs, using external support for that," he reports. "Training is a core obligation and commitment, focusing on all areas of investments, markets and so forth."

"But," Godfrey jests, paraphrasing Mike Tyson, "he apparently said something like 'everyone has a plan until you get a punch in the mouth'. Well, whatever training we can offer never covers the type of crisis we saw in March, so in reality, we also appreciate that investment is also really about controlling temperament as much as technical knowledge. Technical expertise can easily be acquired, but the right temperament cannot, but I do believe we must find more creative ways of training, including building this emotional stability or temperament, patience, discernment, how to react in certain situations and so forth. If, for example, an asset drops 20%, is that the time to stock up with more, hold or sell? Information and data will help, but so too will the right temperament. Some people have this somewhat naturally, but some people may hopefully learn it over time. Luckily, there are a lot of good books on this subject by the greatest investors, and it's possible to learn from them."

RE-SHAPING PORTFOLIOS

Another key area for education is the shaping of portfolios and exposures. "How should investors size positions in portfolios, what are the optimal time horizons, how do they dice and slice their holdings to balance returns over time?" he asks. "These are important considerations to communicate for our CROs to their clients, and perhaps we must all make a greater effort to promote this type of more sophisticated outlook and approach."

Godfrey also observes that there is too much negative reinforcement and insufficient positive reinforcement. "The negative side of reinforcement," he elucidates, "means advising CROs not to promote some ideas or products unless certain conditions exist, whereas a better approach perhaps is more positive reinforcement so that we are offering clients more beneficial ideas, more stories that then lead to suitable products, solutions, ideas, all

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of which can be relayed by the CROs, supported by more creative media, including video presentations, audio relays as well as direct dialogue."

Godfrey himself has been using this hiatus to upskill with online training modules, as well as getting people who are authorities on the subject to communicate on these subjects in recorded dialogues. "In short," he observes, "there are more creative ways to do training., beyond simply fulfilling the obligations, beyond the somewhat static approach and into a more dynamic type of environment. And regarding our clients, we then have to see how they will take these ideas on board over time through their investment behaviour, but of course, it all takes investment, imagination and a major commitment to look at the long term relationships with clients."

SOME KEY TRENDS

He shifts the discussion to key trends he is witnessing and anticipates. "Since arriving in the world of private banking less than two and a half years ago," he reports, "I see a very disjointed customer experience. To overcome that requires better systems for boosting the interface with clients and achieving greater connectivity and consistency. That all needs a proper strategy and execution, and those who achieve that will be in a far better position ahead, as they will be getting the whole customer experience right."

He also notes a far greater interest in general in private assets, especially as public markets have so often been highly priced in recent years, and of course due to some extremes of volatility. "Obviously there is the liquidity of the public markets, which investors have to give up in the private assets space," he comments, "but additional returns over time, some degree of exclusivity, and the side-stepping of day-to-day volatility are all upsides. We expect more activity on the private side, both in equity and credit."

ADVICE TO THE FORE

He also sees a rising interest in the advisory proposition. "We are seeing more interest from clients in seeking quality input that helps connect their investments to the reality of wider wealth, tax and estate planning," he reports. "Insurance, and even health insurance, are also closely linked into this larger picture. So, consolidated advice that sees the interaction between all those assets, facets and approaches is very important and will become more prominent. And to help firms deliver this, they will need to work more with external partners, as it will be very rare, or more probably impossible for any organisation to offer all of those services."

As to discretionary management, Godfrey indicates that this is not something that clients automatically request, especially if they are only really interested in brokerage type services. "Nevertheless," he reports, "the regulators appear to be rather anti-the-transactional-approach for the private banks, encouraging more advisory and DPM, to boost the fiduciary type commitment of the wealth firms, but we are frankly not there yet, there is a lot more ground to cover in Asia before we get to levels of penetration we can see in Europe, for example."

RISING TO THE CHALLENGE

He closes the discussion by reiterating that Asia's HNW and UHNW community does not need to rush headlong into the markets or define new portfolio strategies immediately. "This is an entirely unpredicted crisis, one that is still on us across the world and we simply do not yet know the course of the virus and the fallout," he says. "But whatever precisely lies ahead, our role in helping clients select wisely and invest proportionately will be even more important than before. These are challenges we are fully ready to tackle head-on." ■

Getting Personal with Simon Godfrey

An Englishman who was born in Northern France, Godfrey grew up near Macclesfield in the northwest of England, attending The King's School nearby, and then University in Manchester, where he completed his degree in European Business Studies.

"Actually," he recalls, "it was rather an interesting course, all about the deepening of the European Union, and it allowed me to study also for a year in Clermont-Ferrand, as part of the course, which was both interesting and fun."

During his working life, he has continued his education throughout, also gaining his SFAF and CAIA qualifications. And even today, he is studying part-time for the Global Banking Certificate (Digital • FinTech • Analysis) with Columbia University in New York.

Godfrey's role at EFG Bank Hong Kong today, where he has been since early 2018, is to lead the Products team, represent the Asia product management function and build credibility with CROs (EFG's term for RMs) and clients, work with key stakeholders of the bank for the promotion of multi-asset class Investment Solutions and interact with leadership to leverage regional investment resources and develop a best-in-class product offering for EFG Asia.

He joined EFG after two decades in the investment management industry. Prior to taking on the role of product due diligence and onboarding for EFG Asia, he was an investment specialist for European Small Cap Equities and Emerging Markets at Fortis Investments/BNP Paribas Asset Management in both Paris and Hong Kong. In those roles, he was responsible for representing investment strategies to multiple channels including institutional, private banking and wholesale and managing a global team of specialists from Asia.

Following that, Godfrey co-founded an investment marketing consultancy in Hong Kong and was head of product marketing at Fidelity International.

He has fond memories of his time at Fortis Investments, where the portfolio managers had a lot of leeway to manage their portfolios without overt constraints. "It was a very stimulating environment," he reports. "That led to moving to Hong Kong in 2007 with Fortis, working with a Hong Kong-based Asian equity team and a Shanghai-based China equity team, both fascinating experiences. When BNP later took over Fortis, we were actually the asset manager with the broadest coverage of the region, with offices in 12 different countries."

Godfrey has three children, with the youngest of the three, a daughter, taking up a lot of his time. He also spends spare time learning more about the financial markets, economies and geopolitics. He keeps fits by running, hiking, swimming, and playing the occasional game of tennis and veterans rugby.

EFG Expands its Global Reach

Swiss private bank EFG began life in 1995 in Zurich, and ten years later listed on the SIX Swiss Exchange. In 2016, the bank took another leap forward by combining forces with one of the oldest private banks in Switzerland, BSI, in a nearly CHF1 billion deal.

Today, the combined entity has a growing global footprint with 40 locations worldwide, and through offices in Hong Kong and Singapore is on an ambitious expansion trail in Asia Pacific, which resulted in a substantial purchase of a leading boutique wealth manager in Australia earlier this year.

On March 13 last year, EFG released its 2022 strategic plan in which the bank highlighted its mission to drive business initiatives forward and hire more CROs in order to achieve profitable growth and effective capital deployment.

The international footprint

The bank at that time reported EFG's strongest half year yet in terms of CRO hiring, with 94 new CROs hired, and with seven of those joining in Asia. The acquisition of a majority stake in the Australian wealth management firm Shaw and Partners in April this year further expanded the bank's Asia Pacific footprint and capabilities, bringing in another roughly 150 CROs.

At the end of 2019, EFG hired, signed or approved a record 181 CROs, exceeding its original guidance of 70-100 new CRO hires per annum. As of end-2019, EFG had 815 CROs in total, including the 186 of Shaw and Partners. The acquisition of this important Australian financial service provider considerably strengthens EFG's coverage within Asia Pacific, providing immediate access to the Australian market, which is one of the most attractive and fastest-growing wealth management markets globally.

The bank has since released its FY19 results, noting a net profit increase of 34%, and an increase in AUM of 17%, supported by 4% NNA growth. The bank is also well capitalised, standing amongst the highest of the Swiss banks with a Total Capital Ratio of 21%.

In 2019, EFG also relaunched its domestic Italian business from its Milan branch, and expanded its international footprint by establishing new advisory branches in Lisbon, and in Dubai. The bank is focusing on capturing significant growth opportunities in the Southern European and Middle East markets by leveraging its strong local know-how and global capabilities.

EFG has also taken significant steps to strengthen its global coverage of the Independent Asset Manager (IAM) segment, especially in Switzerland and the Asia Pacific region, both through the acquisition of CRO teams and partnering with specialised outsourcers. As part of this initiative, it is enhancing its global offering for IAMs by expanding its services to include a comprehensive multi-custody platform. The new platform is being developed in partnership with AM-One AG, a subsidiary of Expersoft Systems AG, which is one of the leading providers of innovative software solutions for asset and wealth managers.