The Younger Generation of HNW Clients in Asia: Directing their Investment Traffic

How should the wealth industry approach the transition to the clients and position themselves to engage them in meaningful dialogue and product relationships that will sustain their businesses and the clients' investment portfolios for many years to come? A panel of experts assembled at the Hubbis Investment Solutions forum in Singapore to give their views.

These were the topics discussed:

- *How do you deal with the younger generation?*
- *What is their attitude towards investing?*
- *What do the younger generations expect from you?*
- *What are banks doing to create a holistic and meaningful user experience for them?*
- *Beyond investments, what other engagement do you need to provide?*
- *Has client demand for Impact investing, SRI, ESG increased?*
- *Do you provide these solutions in-house?*
- *Is impact investing an add-on or a core investment?*
- *Which areas would you invest in or avoid?*
- *What's the next phase of impact investing?*
- *Assessing products: the good, the bad and the ugly*
- *Does ESG deliver superior returns?*
- *Can these offerings be bespoke to deepen relationships with clients?*

PANEL SPEAKERS

- **Arjan de Boer,** Deputy Chief Executive, Head of Markets, Investments & Structuring, Asia, Indosuez Wealth Management
- **Marc Lansonneur,** Managing Director, Head of Managed Solutions and Investment Governance, DBS Private Banking
- **Alvin Lee,** Managing Director, Head of ASEAN Account Management, IHS Markit
- **Paul Stefansson,** Managing Director, Global Co-Head of Investment Funds, UBS Wealth Management
- **Silvio Struebi** , Partner Simon-Kucher & Partners

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THE KEY TAKEAWAYS

Sustainability is an investment opportunity

There is always a great opportunity in being a prime mover. Sustainable investment, whether impact investing, or portfolios driven by ESG principles and metrics, offers a growing opportunity for those who embrace these concepts. Public equity investment and private equity offer the most obvious route at this stage.

Matching concepts to reality

Some bankers report that they are increasingly targeting investment ideas to the younger generations that do indeed address or relate to these important environmental and social issues. Some report that they define ESG scores in their client statements for individual securities and also at the portfolio level.

Older investors buy in as well

It is not only the younger generation who engage with the sustainable investment phenomenon.

A great way to engage

As younger clients are generally less loyal and as most are actively engaging with alternative investments, ESG and sustainable investment ideas are a great avenue by which to approach and engage them.

Tailored and personalised

Private banks and wealth managers must embrace the opportunity for better and differentiation types of engagement with younger generation clients, who have different lifestyles and expectations. Financial solutions delivery must be engaging, including the use of digital, as well as personalised, targeted, and imaginative.

Mind the gap

Wealth managers need to be aware of the age difference of the advisers and the clients when trying to attract or retain younger clients.

Institutional enforcement

Pension funds and sovereign wealth funds are increasingly pressuring companies and other asset managers to think sustainably. They demand greater transparency and greater focus with regard to ESG principles.

Don’t back the fear factor

Fear is no longer a driver for sustainability for investors, they are also keen to see and participate in the outperformance of sustainable investments that has been gradually emerging in the past several years.

Data is vital

Giving HNW investors deep insights into their portfolios from the ESG and sustainability perspectives is a key initiative for some research bodies and wealth managers. Data and education are both key drivers.

Think multilateral

World Bank bonds offer a simple means to invest in social improvement globally. And investors can also look at the growing traction around the concept of United Nations sustainable development goals, or SDGs.

Seeing the value-added

In a rapidly changing world - one in which before individual long car ownership might disappear - there is a world of opportunity. Wealth management should seek out the value-added opportunities for their clients, of whom the younger generations are more inclined to both sustainable investing and DPM mandates.

MARC LANSONNEUR
DBS Private Banking

A PANELLIST BEGAN BY REMARKING THAT not everyone believes climate change is real. "When investors don't see the opportunity," he said, "that offers leeway for the rest of us to take advantage of those opportunities first. I for one believe now and there are tremendous opportunities both at the VC level and also obviously in the equity markets as well."

And another guest commented that it is important to target investments to the younger generations that do indeed address or relate to these important environmental and social issue. "We actually report ESG scores in our client statements for individual securities and also at the portfolio level and especially the younger clients are actively engaging."

"I should add that this is not just a younger generation phenomenon," came another voice, "as we see this across many of our 50-plus year old clients. It is becoming more universal."

Seeking loyalty

One expert highlighted what he called the 'experience economy'. "My impression is banks can do more in this area," he observed. "We recently ran a survey about the needs of millennials in major markets in APAC, UK and US and we found out that 60% of the millennials are currently not happy with their wealth managers, nor are they loyal, with most of them having more than three to four banking relationships. Meanwhile, 80% of these people are considering

ALVIN LEE
IHS Markit

alternative investment avenues and opportunities such as online, global, direct investments and of their current wealth they already have 50% of their assets with these players."

He said the main finding of the research was that there is a need for a vast improvement of the current value proposition. "These younger people grew up in a different era, they have different expectations and needs from the older generations and typically there is a mismatch between the banker and these clients, and somehow banks need to find ways to talk to them, otherwise they will look for new alternatives. A key aspect is they are global citizens, they have a high degree of mobility, they move from one country to another, they therefore need financial solutions that support their international lifestyle. And the delivery must be personalized, targeted, imaginative to engage these clients."

Mind the age gap

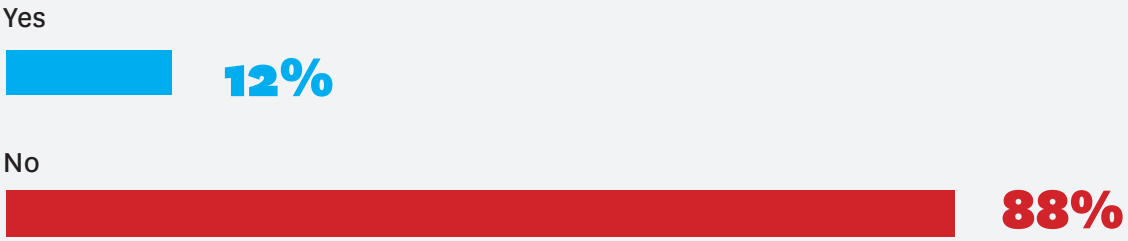
A banker agreed, commenting that the first step is to retain this new generation of clients, and there is often a mismatch with considerably older bankers trying to engage with much younger individuals. He noted that new channels are also vital, including digital, as well as emphasizing thematic approaches such as ESG and other sustainable investing as part of the engagement process.

Pressure from global funds

Another guest noted that many companies are now being encouraged, almost forced, by fund managers to disclose their sustainability practices. "A key question is how this data can be standardized," he remarked, "so that equity analysts, fixed income analysts, and others can apply that to their research. It is also happening for private markets, with investors there requiring better insight into the ESG performance of private

SILVIO STRUEBI
Simon-Kucher & Partners

HAVE YOUR CLIENTS SHOWN MORE GENUINE INTEREST IN ESG?



Source: Investment Solutions Forum 2019 - Singapore

companies. It is important to understand which companies are ahead in this area, or in renewable energy or other initiatives; it is an area we are intently focused on, helping to filter this up to equity analysts and fixed income analysts."

Encourage, don't distress

A panellist commented that in his view the whole disaster-based approach to climate change no longer engages the clients. "We need to promote this and look at this as more of an investment opportunity, as this resonates with the next generations," he said. "My son is 19 and I took seven of his friends out for dinner, not one of them had a driver's license or a car. They are living very differently today, and we need to adjust and see the key trends ahead for the next 10 or 20 years. Some of the most dramatic change will take place in countries such as China."

Delivering performance

He added that being in the wealth management industry, the key is matching investment and themes, including sustainability. "As bankers," he said, "we need to deliver performance. This is no fad, there is real substance behind it all. Since 2014, there has been significant outperformance for those companies with high ESG credentials interestingly in Europe and North America, and this is evolving in Asia as well. The performance part starts to speak louder and louder and louder especially with large global institutional investors focus and demands growing apace."

"Yes," came another voice, "there is definitely strong and growing support from the institutional investor community for many of these initiatives, especially the sovereign wealth funds and the pension funds in the major economies. And of course, stock exchanges increasingly will be very focussed on pushing the companies listed on their exchanges to move in this direction. All these things will work in concert with each other to make this a pervasive trend."

Giving insights

"Giving HNW investors deep insights into their portfolios from the ESG and sustainability perspectives is a key initiative for us," said another banker. "We have our Asia summit and this year this focused on the drive for a better world, so we are making great efforts to educate our bankers and clients in this area and to really engage all parties."

PAUL STEFANSSON
UBS Wealth Management

A panellist recommended World Bank bonds. "Remember that in this world of ours, around 750 million people did not have two dollars to spend yesterday," he stated, "far too many women are still dying in childbirth, sanitation is only available today for six out of 10 people on our planet. World Bank bonds fund projects to help these and many other areas but pay more than US treasuries and there is a negligible risk of default."

Linking ESG to philanthropy

A guest noted that philanthropy is another key area for private banks to focus on, which engages across all generations, but that more effort need to be made to communicate the investment opportunities and merits of ESG investing and its connection to philanthropic initiatives, and more effort must be made to ensuring philanthropy is genuinely impactful.

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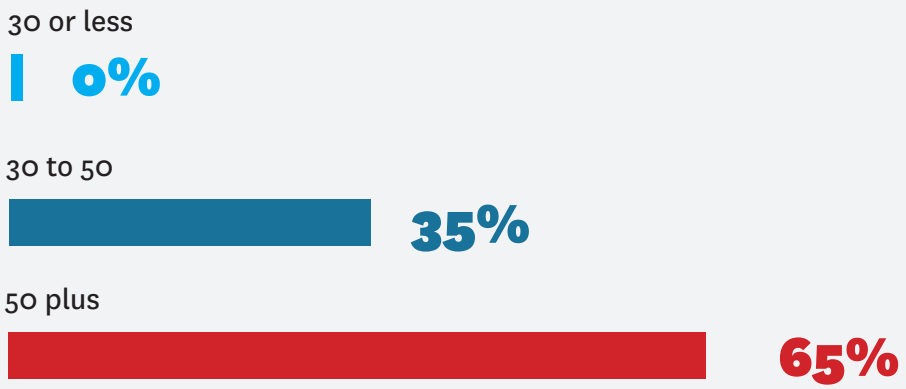
ARJAN DE BOER
Indosuez Wealth Management

"This is all difficult to quantify and monitor precisely," said another guest, "but there is increasing traction around this concept of United Nations sustainable development goals, or SDGs, and growing links between those and individual or collective investments, so you can see which businesses and investments enhance these SDGs."

HOW OLD ARE MOST OF YOUR CLIENTS?



Source: Investment Solutions Forum 2019 - Singapore

Room for manoeuvre

The discussion also touched on whether the younger generations prefer hands-on investing or passing their wealth to discretionary managers. DPM is rising in Asia, albeit from a very low base of about 2% some years ago to around 10% today, partly because the younger generations have other priorities and are more prepared to migrate towards delegated solutions and managed solutions.

A changing world

To further encourage them towards ESG and other impactful investment approaches, these investors next need to better understand the value of doing so. "I myself," said one expert, "believe that ESG truly provides a lot of value to the customers but we need to convey the value-added of investing along those lines and show that perhaps it is worth paying a premium to adopt this approach. Most of the ESG has been sold based on fear, but that is changing, so for example we will see new regulations driving change, we will see tremendous investment opportunities to go from the carbon world to a de-carbonised world. In the future, will we own cars? Well, Americans use their cars 5% of the time, so the world we are in is changing dramatically. We need to convey the excitement and opportunity, not the fear factor."■