FEATURE ARTICLE

WHY FLEXIBILITY AND DIVERSITY ARE KEY TO STABLE PORTFOLIOS

TO BEST MEET THE INVESTMENT APPETITE OF ASIA'S WEALTHY, ASSET MANAGERS NEED TO DELIVER PRODUCTS AND STRATEGIES WHICH HAVE THE FLEXIBILITY TO UTILISE TACTICAL STRATEGIES WHILE MANAGING THE CORE OF A PORTFOLIO, SAYS MICHAEL THOMPSON, HEAD OF PIMCO'S WEALTH MANAGEMENT GROUP IN ASIA EX-JAPAN.

Michael Thompson
PIMCO

Among the various priorities for private banks in 2015, three key areas that many of them are spending most of their time focusing on include: meeting the return expectations of their clients; generating consistent and attractive levels of income; and navigating bubbles in risk asset markets.

For asset managers like PIMCO, helping these organisations address these concerns sets their agenda for their client-focused activity.

In line with this, Michael Thompson, head of the firm's wealth management group in Asia ex-Japan, is very clear on his business strategy for the next 12 months or so. "We are focused on expanding the size of our wealth management team, especially in Hong Kong and Singapore, making a positive statement and commitment to the region," he explains. "We will also continue to expand on what clients might see as our core strengths, including global fixed income, which goes a long way to stabilising income."

He is also focused on increasing client awareness in three additional areas: the firm's suite of traditional and more liquid alternatives; capital securities that have benefitted from the ongoing deleveraging of global financial institutions; and its equities capability, especially in terms of smart beta.

PROVIDING PORTFOLIO STABILITY

Navigating the current environment is tricky. For example, central bank growth looks a lot less synchronised than in the past, explains Thompson, and US growth has decoupled from that in the rest of the world.

For investors – wherever they are located – to focus a bit more longer term, requires an emphasis on establishing the core of a portfolio which consists of strategies which are flexible but also designed to deliver consistent returns, and with an easy-to-understand volatility profile.

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In Asia, in particular, Thompson says there is a need among his clients to combine a flexible, unconstrained approach with an income feature.

This plays to the value of tactical strategies, as a flexible way to managing the core investment, to take advantage of certain opportunity sets as they arise, he explains.

As a result, PIMCO's focus for its wealth management clients is providing them with core strategies which stabilise the risk profile of portfolios. And income is effective in achieving this.

Some of the staples of income generation that Thompson predicts for the foreseeable future include the non-agency mortgage sector in US. This continues to provide reasonable and consistent yield levels, he says, in the realm of 5% to 7%.

There is also a case for clients to own Brazilian and Mexican bonds, he adds; although prices have tended to be volatile, absolute yields are quite attractive. At the same time, he points to some of the high-quality corporate names and some shorter-dated bonds among the main themes for investors to generate income.

Further, it is about balancing the desire for income with capital appreciation, and securities such as Australian government bonds can serve as an effective risk-off asset in a portfolio to stabilise the more yield-oriented investments, explains Thompson.

AN ALTERNATIVE TO DIFFERENTIATION

The focus by PIMCO on liquid alternatives is another way to meet the appetite of distributors.

Investors started to show interest in such products in 2014, but Thompson says they have a desire to increase allocations in 2015.

"They want uncorrelated ways to generate portfolio returns, without sacrificing liquidity."

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While a number of asset managers are offering liquid alternative strategies, Thompson points to heritage and track record as important differentiators in this space.

"Managing these portfolios requires knowledge of and experience in using sophisticated portfolio management technique," he explains, "which we have been doing in the US for a period of time."

For example, if various derivatives are required to deliver a particular alternative strategy, there is a need to ensure the manager has the knowledge of using these securities through various market environment. Plus, the experience to negotiate and develop counterparty relationships on a global basis.

MORE MUTUAL FUNDS PLEASE

The gradual but ever-growing engagement of mutual funds in client portfolios also offers an important opportunity for asset managers to add value to distributors, as they strive to meet the needs of their own clients.

In late 2010, when Thompson arrived in Singapore, managed investments – via a combination of mutual funds sold on an advisory basis as well as discretionary mandates utilising funds – comprised, on average, 5% to 7% of a client's invested assets.

Today, this has risen to the 10% to 15% range, and in some cases it is even a bit higher. "There is an increased focus on encouraging clients to use discretionary managed portfolios, especially with funds," he says.

The changing maturity profile of wealth in Asia is an important factor.

"As the creators of the wealth become less associated with its day-to-day management, there will be an increase in the amount of discretionary-focused and advice-based funds used," explains Thompson. ■