Winds of change

Funds represent the first step in money management delegation – something which Rodolphe Larque of Credit Suisse says investors in Asia are increasingly embracing.

Persuading clients to embrace managed solutions is a slow and challenging task in Asia, but there are signs that progress is being made.

Only within the last few years has the private banking business in Asia emerged from being akin to a brokerage service in the eyes of many clients.

The first generation of the region's wealthy tended to take a much more hands-on, active approach to managing their money, and followed their own ideas.

However, with the second and third generations emerging, there is greater acceptance of a more hands-off approach to money management.

Regulatory changes are acting as a catalyst of sorts. Suitability frameworks have introduced a whole layer of processes around trade execution. And increasingly, clients are more receptive to the idea of placing money in a managed account to reduce the time spent on repeating certain processes every time a trade is executed.

These are leading to a shift in the revenue model of the private bank, explains Rodolphe Larque, head of funds and ETFs for Asia Pacific at Credit Suisse Private Banking.

Although a relatively heavy reliance on trading revenues continues for many institutions, there is a clear and steady move in favour of fees from professionally-managed client money.

CHANGING THE MIND-SET

Maintaining this success is, however, still reliant on convincing clients about the benefits of discretionary portfolio management (DPM).

This is especially the case in light of the psychological make-up of clients. "Most of the time, when hands-on clients have a bad investment year, they just brush it off as just that – a bad year," says Larque. "They don't realise that their active approach to investment manage-

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ment might be a problem in itself as they engage in a buy high, sell low strategy."

Expressing this to a client is likely to be counter-productive to the relationship. Yet clients need to be receptive to what private bankers tell them; otherwise, even the best suggestions could fall by the wayside.

FINDING ALPHA

Take the case of alpha. Active fund managers have been criticised – backed by various studies – for failing to deliver alpha.

While some clients have shunned active funds, there is evidence that they still seek to outperform. "What I have seen is that everyone behaves as if they believe in alpha," explains Larque. "The question is therefore less about whether alpha exists or not, but rather on what is the best approach to deliver such alpha."

It is therefore important to offer both active and passive solutions. First, combining both in a selection process ensures that only the truly value-added active funds get recommended, he says. Secondly, it caters to the preferences of each client: active funds for clients believing in a professional fund manager, passive for clients who rely on their own (or advisor's) capacity to generate alpha.

TAKING THE FIRST STEP

Larque believes in the long road to money management delegation, with fund investing representing the first step.

Once a client has a positive experience, he or she is much more likely to be willing to take another step in that direction, he adds. "You don't give up the asset allocation part; you just entrust the stock selection bit," he says.

Credit Suisse has a structured approach to fund selection, selecting from over 10,000 funds on its platform. All of these are placed in different peer groups and the best from each peer group is placed in a master list of 300 funds.

This list is research-agnostic and filtered even further into a high-conviction list of about 70 funds. "This is our list from a proactive point of view. The master list is more reactive; if a client has a specific demand, we have a fund that caters to need on the master list," says Larque.

fund selection team focuses of raising awareness on five solutions. "In-house research and our investment consultants help us decide what those solutions are because our consultants are the ones talking to clients every day," explains Larque.

Engagement, the second component, refers to interacting with fund providers in a structured manner.

"It has to follow the processes of the bank and many of those processes are linked to regulatory requirement," he says.

"It is often easier to weed out those [funds] that will perform badly."

MANAGING EXPECTATIONS

Managing client expectations on funds is also important to the ongoing success of fund penetration. It's not about picking the best-performing fund every time.

"I do believe we select the better funds. It is often easier to weed out those that will perform badly. By eliminating such funds I already stand a much better chance to select the better ones. If I manage to systematically select funds in the top two quartiles, that is a good result," says Larque.

The Swiss group's fund selection strategy has three main components: focus, engagement and attitude.

Focus refers to raising awareness on some of the solutions. With so many solutions to promote, every quarter, the

The last component is sales attitude. "It's about having a more holistic approach," he adds. "Too many times, product providers sell something and after it's sold, you don't hear from them anymore."

Communication is also important between the bank and its clients. Of course, given regulatory requirements, any communication sent to clients must be given the go-ahead by compliance. "It's a challenge because markets are dynamic and you need to be quick. However, all documents must be read and approved internally before being sent to clients," he says. "When market events happen, we ensure we put together all the updates and comments from the fund manager on how they view the event and their market positioning etc. For us, that is an important part of the pre- and post-sales process." ■