Younger Generations of HNWI Clients – Investment Trends and Outlook

What does Millennial mean when it comes to wealth management, for those who are inheriting Asia's vast private wealth and those who are now making the region's future wealth? Whichever route they arrive at their huge wealth, the private banking and wealth management community are concentrating increasing efforts at keeping them within their folds as clients or bringing them to their firms as new customers. How is the wealth products, services and advisory industry adapting their strategies, and their teams, to cope?

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?*
- *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

- **Janet Li**, Asia Wealth Business Leader. Mercer
- **Aleksey Mironenko**, Partner & Chief Distribution Officer, Premia Partners
- **Entela Benz-Saliasi**, Associate Professor, Dept. of Finance, HKUST
- **Sunita Subramoniam**, Vice President, Product Strategist - iShares, BlackRock

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THE KEY TAKEAWAYS

Hold on to the family generations

As there is evidence that the second and younger generations of Asia's HNWI families are far less loyal to their private banks and wealth management firms than the founder generations, it is vital to reach out to the future holders of Asia's wealth. It is vital, therefore, for the providers of the products, services and advice to adapt their strategies, including their modes of communication.

ESG principles rise in importance for younger investors

Younger investors might include the second generations, many of whom might already be in their 50s or 60s in Asia, as well as the Millennials. Throughout these categories, there is a rising focus on ESG principles for investment.

Data and information are the keys to unlock the ESG market

There is a growing availability of ratings of funds and fund managers as well as of companies in terms of various categorises of criteria to judge both performance and the application of ESG-type principles.

Tomorrow's wealthy are looking at tomorrow

The next generations are not just looking at yield, but they are also looking at customer experience apart from investment, and at areas such as ESG, so qualitative research that is widely available is vital to help them formulate their portfolios.

Asia's family offices also driving change

The same is true for family offices in Asia, which are also going through a generational metamorphosis, with investment control shifting to younger family members who are looking further ahead and are also more determined to take a more ethical approach.

Transparency is vital

Transparency is essential, with rankings of ESG characteristics and scores on ETFs helping the asset management and investor communities, but the global regulatory community must also work to demand greater information and transparency from the companies in their capital markets.

Asia lags the global ESG trends

There is widespread availability of ethical and ESG-type investments in Europe and to a slightly lesser extent in the US, but there is far less progress in Asia, where, for example, there is not a single Asian equity ESG product in ETF form.

Communicate the advantages

To address this lethargy in Asia, there needs to be more data on returns - ESG strategies have largely outperformed the indices in the past 5 to 10 years - and on the interplay with risks and volatility. ESG principles if well applied, can help investors avoid one-off events, for example the emissions crisis at Volkswagen, or other environmental-type crises. All these criteria add up to a compelling reason to focus on ESG.

ENTELA BENZ-SALIASI
HKUST

THE DISCUSSION BEGAN WITH A PANEL MEMBER NOTING THAT a major bank had conducted a survey of their second-generation clients - some of whom would now already be in their 60s - and found that most of them would not continue to bank with the same private bank as their founder generation parents.

An expert spoke first, explaining that their firm's efforts are mostly directed not at private clients, but at serving institutional clients such as private banks, wealth management firms, fund managers, to enhance the services to their end customers.

"We are indeed seeing these trends," they said, "so we conduct education seminars, and financial planning sessions to help them focus on engagement with the younger generations, the Millennials, how to connect to them via social media and other means than face to face. A lot has changed in the past 20 years or so since we began these types of seminars and this sort of education. We aim to speak their language, to aim the sessions that we conduct for our institutional clients on the relevant topics, lifestyles and so forth."

She added that her firm has done a lot of work on how we can better serve the HNWI market and devised a research-driven fund and asset manager star ratings offering that is also usable by individuals in a public website.

JANET LI
Mercer

"We believe the next generations are not just looking at yield, but they are also looking at customer experience apart from investment, and at areas such as ESG, so we offer them qualitative research through this public platform."

Another guest remarked that a lot of their work in this regard has been with family offices in Asia, many of which are going through the same transition where the principals are no longer the original founder generations.

"The founders are often stepping back to let others in the family direct their investments, and we are seeing trends towards more ethical, sustainable, governance-driven investing, more ESG, more foundations," he noted. "They are not so focused on the main indices, they often do not think along those lines, they are more struggling with redirecting the portfolios more towards the younger generations' requirements, without overly sacrificing return. We are seeing more interest in ESG versions of ETF strategies, more thematic ETFs, in short more suitable types of products."

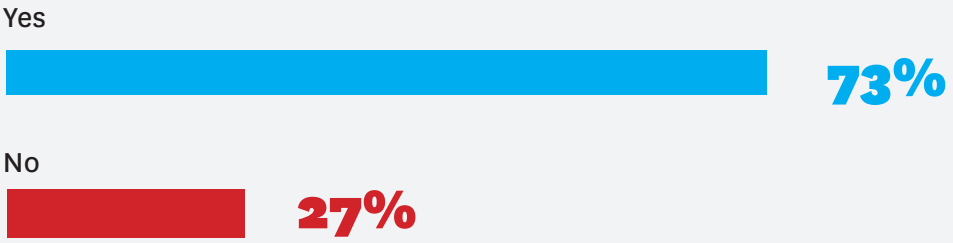
"We are actually seeing many asset owners and asset managers, even regulators focusing more on sustainable investment," came another voice. "If you think of the World Economic Forum's global risk report, four out of five most pressing risks that the world currently faces are environmental, and the fifth is war, which I would argue is also environmental." Millennials and younger generations, they added, are vocal on these concerns, and for the wealthy want to know their investments are targeting products that help in different ways."

ALEKSEY MIRONENKO
Premia Partners

A guest concurred with the view on transparency, remarking that rankings of ESG characteristics and scores on ETFs are helping the asset management and investor communities.

A panel member highlighted the widespread availability in Europe of many different ESG strategies. "But we see far less progress in Asia,"

DO YOU WANT TO WORK WITH YOUNG CLIENTS?



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he noted, "so, for example, there is not a single Asian equity ESG product in ETF structure. There are only about a dozen publicly available beta strategies that are ESG in any shape or form in the wider EM market. Is that a demand or supply issue? Right now, we do not know. Another problem is that you have different standards across the world, so it is tough to compare across countries and jurisdictions."

A guest reported that it is important to approach this challenge with a view to screening out the businesses that investors think might be controversial or harmful from an environment, societal, or governance point of view. Examples of this would be tobacco, alcohol, GMOs, controversial weapons, nuclear weapons, firearms and the list goes on, ending up with a portfolio that will have enhanced ESG characteristics compared with the broader indices.

Another panellist also pointed to the rising global population and the ageing of societies and their impact on investment horizons and approaches. She noted that the burdens of their parents, grandparents, could be on the shoulders of the younger generations and there must be a longer-term approach from a younger age.

A guest also explained how there is still a shortage of money directed towards ESG investments.

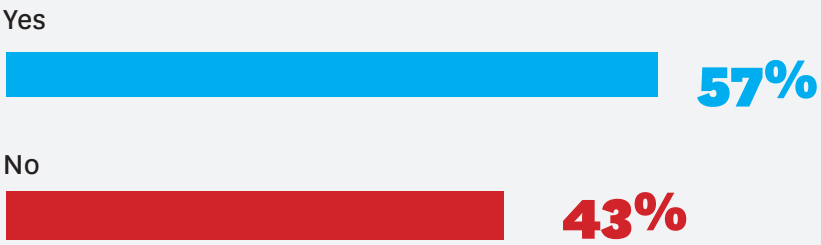
"Are we speaking the right language, are we connecting to investors, should we be targeting institutional investors, sophisticated investors, or retail investors, HNWIs, the millennials?" they asked, rhetorically. "When you talk to institutional investors they might want to invest in infrastructure projects or other projects, however, their maturity, the time horizon, the liquidity concern, political risk will not allow them to take infrastructure projects which last for 20 years, so then you have to provide the mechanisms to exit, for example involving institutions such as the Asian Development Bank."

SUNITA SUBRAMONIAM
BlackRock

She added that there must also be more information on how ESG criteria work and their impact on returns.

"There is actually clear evidence that there is a benefit in terms of returns on ESG strategies," replied another panel member. "In fact, there is a

HAS CLIENT DEMAND FOR IMPACT INVESTING, SRI, ESG INCREASED?



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very nice correlation between high ESG ratings and quality, low volatility and low tail risk. Over the past 5 to 10 years you would have experienced a better return at roughly the same level of risk. But will that be true when looking ahead? The issue is that valuation multiples of stocks with ESG principles embedded have risen to a premium to the market, making it more difficult to predict higher returns."

He explained that the best stocks are already owned by all people who care about ESG, so the key to future performance will be to fine-tune ESG ratings to identify the companies that will become ESG-driven stocks and thereby enhance returns potentially, as well as valuation multiples.

"We think it is important to realise that ESG can actually mitigate and limit your exposure towards systematic and idiosyncratic risk," came another view. "so, for example, the Facebook data breach, or the Volkswagen emission scandal, or the collapse of a dam in Brazil. The right ESG ratings and the application to portfolios could have excluded or minimised the exposure to companies like that, and that is potentially one explanation for why ESG products tend to do better because they protect investors from market events."

An expert commented that data and information are essential to improve the ESG-type investor universe in Asia, but that there remains some considerable scepticism on the ratings, the information, the approach. "Yes," said another panellists, "so it is really important to communicate with the millennials, and the new generations in terms and topics they relate to so being very thematic is important, focusing on the impact on the world they will live in, the impact on water, food, health, environment."

The final word came from a guest who noted that governments and regulators can also play their parts by demanding greater ESG-type disclosures from their universe of listed companies. He remarked that Hong Kong has been doing this, and also putting pressure on China to improve its ratings in this regard. ■

"YES," SAID ANOTHER PANELLISTS, "SO IT IS REALLY IMPORTANT TO COMMUNICATE WITH THE MILLENNIALS, AND THE NEW GENERATIONS IN TERMS AND TOPICS THEY RELATE TO SO BEING VERY THEMATIC IS IMPORTANT, FOCUSING ON THE IMPACT ON THE WORLD THEY WILL LIVE IN, THE IMPACT ON WATER, FOOD, HEALTH, ENVIRONMENT."