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Increase in DPM mandates drives further engagement of ETFs by Private Banks in Asia

“THERE’S BEEN SIGNIFICANT RISE IN DPM AT PRIVATE BANKS. WE ESTIMATE THAT DISCRETIONARY PORTFOLIOS NOW REPRESENT 9.7% OF TOTAL ASSETS”

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Has there been a rise in Discretionary Portfolio Management (DPM) within Asian based Private Banks?

There’s been significant rise in DPM at private banks. We estimate that discretionary portfolios now represent 9.7% of total assets. That has doubled in the last five years.

Discretionary portfolio management is growing for two key reasons. One has to do with diversification of business models, where we see a definite need and interest from private banks to diversify away from transactional business models and into more stable revenue, like DPM.

The second reason for the growth is clearly because it makes a lot of sense for clients. It offers them better portfolio management at a lower cost. It allows them to build diversified portfolios that gives them international exposure to equities and fixed income. For instance, in addition to their alpha pocket’s - like individual securities, hedge funds and private investments.

We see this trend continuing as clients become more comfortable with the concept of asset allocation as a driver of long-term returns. This is very much an institutional approach that you're being offered as a client, and ETFs can play a part in this. We see the growth of ETFs as part of the growth of discretionary.

Just to put that in context, 9.7% of total assets may not sound that impressive, but the fact that it's growing and it's doubled over the last five years is one positive sign that DPM is now catching on in Asia. Just to give you a benchmark. In Europe and the US, we see discretionary portfolios at between 20% and 40% of total AUM in private banks. That shows the potential that we have ahead of us here.

What's the opportunity that creates for you?

If clients are getting more receptive to asset allocation as a driver of returns to build portfolios for the long-term at a very low cost, ETFs come in as efficient building blocks, and that's opportunity number one. We see ETFs in discretionary. The ETF wallet is eight times higher than in the overall private banking investment portfolios, so that's eight times ETFs representation in these portfolios. That's quite significant. So ETFs are building blocks, trend number one.

The other opportunity and trend where, we can help, is clearly when it comes to building client's portfolios. For the asset allocation itself, private banks do this. In some cases, we've worked with private banks who want additional models, diversifying models, models that give different outcomes. For instance, multi-asset high income factor-based models, thematic models, we can help them build this and that enables them to grow their business faster without necessarily adding resources which it would be required to do this in-house.

ETFs help clients both in advisory, fee-based advisory, and in discretionary, get low-cost exposure and international diversification. One example is as yields have come down across the world, and especially in Asia, for instance fixed income ETFs, you can build

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international diversified portfolios for fixed income, which is something that clients really struggle with if they have to do that on their own.

Building the diversification with bonds is very hard. The cost of it can be inhibitive and just simply the access to it can also be hard. Where do you get access to US or European bonds if you want it? How

do you buy them? And the minimum sizes can also be very high. So ETFs help you get that access, international diversification in a very cost-efficient way.

What are other key trends on ETF usage by private banks in Asia?

The key areas of private banks - diversification, asset allocation, and also even generating alpha through very specific exposures on top of core portfolios, so you see them used in discretionary, low-cost core, you see them being used in fee-based advisory. It's still early days in Asia, but we definitely speak to banks that are building fee-based advice models, and ETFs can come in as a low-cost way to get exposures.

We find that if you look at the latest Greenwich Associates survey on ETFs in the region, 55% of the respondents now say, and these are ETF users, institutional users, including some very large insurance companies, pension funds etc, they use ETFs for core portfolios, so long-term holdings. That's significant, and that's a shift that we've seen over the last few years in this region. Whereas in the past, ETFs were maybe used for tactical asset allocation, now they also come in as key part of the long-term exposure.

The point is that discretionary portfolio management is giving investors that long-term institutional quality asset management at a low cost, so institutions are using it and now clients in the private wealth segment can also get the same access, and same good quality asset allocation, risk management and ultimately stable returns that they're looking for.

What we're seeing from some investors in the region now is that they're systematically building their core portfolios, so things like growth and stable income at the core, implemented with low-cost ETF building blocks, and then they add on alpha pockets. They find this is a great way to both generate stable returns, get risk management in place and add on to their high conviction bets.

A lot of portfolios, and this is what we hear from clients, if you only buy your high conviction bets, they can be really concentrated or have unintended risks, factor risks for instance, that you want to mitigate, and that's really what these discretionary portfolios can do for you, and ETFs help you implement it. They're just building blocks.■