November 2012

Special Report

INVESTMENT ADVICE 2012

hubbis

FOREWORD

With the global economy characterised by severe imbalances, some western financial authorities repeatedly using unconventional measures like quantitative easing (QE), and a lack of clarity over prospects for the euro, investment strategies designed to control volatility of returns have obvious appeal.

One outcome of the new, more uncertain environment has been an upsurge of interest in multi-asset funds. While it was once the norm for investors to spread their assets via a number of different mandates or use traditional balanced funds, multi-asset funds offer a single route to a wider investment universe.

Typically, funds will include traditional securities like equities, bonds and cash, as well as commodities, property, foreign exchange and private equity, within a single investment vehicle. Absolute return products may also use leverage and hedging instruments.

Drawing on modern portfolio theory, which suggests that holding a basket of imperfectly-correlated assets can deliver enhanced returns with a reduced level of risk, multi-asset funds aim to diversify effectively and exploit pricing differences between asset classes.

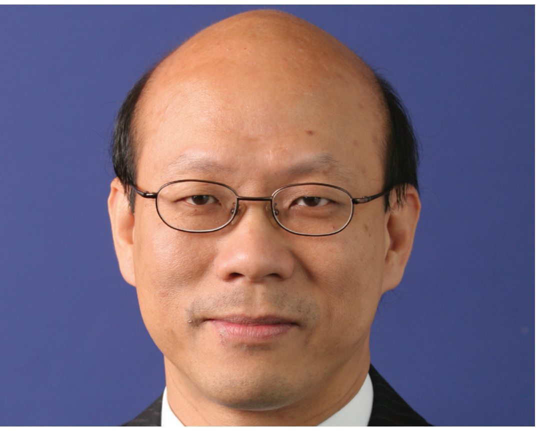
Allocation decisions for newer multi-asset products are underpinned by methodologies which focus on risk allocation, not capital allocation. In practical terms, this may lead to lower allocations to equities than in the past.

While managers working within a single asset class are constrained, active multi-asset managers can use allocation decisions to exploit pricing differences between classes and contain downside risks. Successful multi-asset funds target equity-like returns, but with lower volatility. Returns may be capped on the upside to reflect the "cost" of downside protection.

Multi-asset portfolios can rarely be measured effectively against conventional index benchmarks, even when blended. "Performance plus" targets can be set over inflation, cash or total return over defined timescales.

On behalf of Threadneedle Investments, we're delighted to partner with Hubbis to provide further thought-leadership on the topic of multi-asset investing and investment diversification.

Gerard Clancy
Executive Director, Wholesale Distribution, Asia Pacific
Threadneedle Investments



CONTENTS

CAPITALIZE ON A CHANGING WORLD

INVEST GLOBALLY FOR THE DECADE AHEAD

At Franklin Templeton, we've been investing globally for over 60 years – looking beyond borders for the best long-term opportunities. And today, with perspective from more than 500 investment professionals across the globe, we understand the forces of change in the complex world of investing.

We have identified four global trends that we believe will shape our future in the next decade:

- The Rise of Emerging Markets
- Growth of the Middle Class
- Global Urbanization
- An Aging Population

To see how you might capitalize on these global trends, scan this QR code or visit our website at **www.franklintempleton.com.sg/globaltrends**.

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Feature article

IMPROVING THE ADVISORY CAPABILITY

One of the biggest challenges for the Asian wealth management industry continues to be how to encourage clients to think longer term, and in a more diversified way, as part of their portfolio strategies. This comes down to the quality of advice being delivered.

With asset allocation in the region being different from what Western approaches suggest it should be, getting Asian clients to divide their investible assets more evenly across bonds, balanced funds and equities is difficult.

Asian investors also don't tend to think from a total return perspective. Plus, their views of time horizon – and the fact that their emotional time horizon leads them to look at performance and perceive risk in the short term – are a huge factor in the investment decisions they make.

Trying to break the cycle by getting investors to look at options such as discretionary mandates for long-term growth, or diversifying away from real estate, for example, seem elusive. In particular, Asian investors tend to shy

> It is critical for RMs and other frontline advisers to constantly improve their understanding of their clients' needs and what they are trying to achieve.

Richard Mak
Pictet & Cie

"The days of pursuing a transaction-oriented model are behind us as part of wealth management"

away from discretionary mandates towards a more active involvement.

Bankers and advisers play perhaps the most critical role in encouraging clients to look at the merits of asset allocation and discretionary mandates on an objective basis, rather than "pushing individual products" and giving clients the impression that this is all the industry can offer.

It is critical for relationship managers (RMs) and other frontline advisers to constantly improve their understanding of their clients' needs and what they are trying to achieve.

Only then can they expect to be able to be in a position to deliver world-class investment advice.

This will enable them to drive conversations based on client expectations – both about the markets as well as their returns – and how to achieve and implement this over the long term.
Improving advisory capabilities also needs to involve a combination of asset allocation and the bank aligning its interests with those of the client.

Banks can then hope to steer clients using a step-by-step approach – first to a guided advisory model and subsequently to discretionary management.

THE CHANGING ROLE OF ADVISERS IN ASIA

The widespread regulatory crack-down that has forced RMs in Asian wealth management to be more vigilant in terms of the way they take care of a client's portfolio requires them to now be much more focused on managing risk and suitability.

Further, various local markets have adopted a more protective role over their wealth. By imposing certain capital restrictions, RMs have therefore had to take into account a myriad of changes in the various jurisdictions in which they service clients.

"RMs are much more responsive in today's environment, and appreciate the need for clients to diversify," says says Alfred Mak, head of investment products & advisory at Bank of East Asia. "This also ties in with regulatory changes which call on them to do things differently."

Fee disclosure is one example of this, adds Mak, so to comply they are more focused on helping their clients create sustainable portfolios.

At the same time, however, RMs must still work on behalf of their institutions to acquire, manage and retain clients. Plus, they are judged on the amount of income and client assets they bring to the firm.

For the banks and other wealth management organisations, meanwhile, regardless of the stiffer regulatory requirements they face in terms of the way they advise clients and construct portfolios, the RM remains the primary

Rohit Jaisingh
ANZ

"The industry would benefit significantly from improvements in the level of adviser and investor education and awareness"

Nick Hoar
Neuberger Berman

"Too often I see Asian investors invest into stocks and bonds only to divest shortly thereafter"

conduit they have to the end-client. In turn, there are much greater expectations on RMs in terms of the amount of information they need to gather on each client on behalf of the bank.

These are just some of the reasons why being an RM in today's environment has become an increasingly tough job.

Changing the way in which banks do business and direct their RMs to work takes time, especially at larger organisations. This is exacerbated because assets under management (AUM) and revenue continue to be the primary focus for management in most cases given the pressures of doing business.

Ultimately, banks need to figure out how to reverse the shift from RMs having to spend the majority of their time on internally-focused tasks such as compliance and reporting, back to what they should be doing – managing the client relationship.

Increasing profitability while also serving clients better will stem from a shift towards a team approach, say market experts. To ensure that it isn't just the banker who "owns" a client, organisations are looking to give other individuals access to accounts.

For example, an investment counselor or consultant should actively work with the RM to produce an account development plan. This will include details of the other resources and services within the bank which should be part of this client services team for that client.

So it isn't about simply trying to institutionalise the client, rather ensuring they are better served.

Executing a team-based model, however, is often the sticking point, particularly as many RMs have gotten used to being the only point of contact for their clients.

To help change the mindset, therefore, investment specialists must be clear with their RMs about their value-add from an information point of view to complement their advisory offering – not replace it – and alleviate some of the increased information burden.

According to Rohit Jaisingh, senior director, capital markets and structured products, Asia Pacific, at ANZ Bank, the industry would benefit significantly from improvements in the level of adviser and investor education.

"While there is a cost to this, it will lead to better quality advice, clients being better educated and would encourage clients to be more transparent about their financial objectives," he explains.

A PORTFOLIO APPROACH

One way to potentially reinforce the need for such an approach, is moving away from the focus on AUM and revenue, and more towards adopting a portfolio approach by charging a fee for managing a client's assets.

Sandro Steiner
OLZ Wealth Management

"Implementation means the selection of products and securities. That's where the RMs and their institutions start earning money"

The advantages then include a combination of: specialists managing individual investments and taking more rational decisions; transparency over fees; risk management by the right people; more time for RMs to focus on nurturing existing relationships and generating new ones; and more likelihood of generating annuity revenue.

"The advisory approach has become more portfolio-oriented," says Richard Mak, managing director and head of advisory services at Pictet & Cie in Asia. "The days of pursuing a transaction-oriented model are behind us as part of wealth management. The focus is increasingly on capital preservation and maintaining purchasing power."

Following the shift in investor attitude post-2008, clients are more receptive to greater diversification rather than remaining concentrated, he explains. "Investors are also leveraging much less than before the financial crisis, to reduce the pain points they might face in their portfolios."

While Mak says Asian entrepreneurs have historically wanted to retain control over their investment decisions, as the wealth moves into the hands of the next generation, they are now inclined to focus on, and more receptive to, managed product and principal preservation strategies. "This puts more emphasis on the role of advice, rather than brokerage," he says.

Yet, in reality, this remains on the "wish list" for most banks and other wealth management organisations.

For RMs, the fact that many clients have multiple banks servicing them only gives them a view over the part of a portfolio that the client is willing to show them.

So RMs need to explain to clients the importance of them being more transparent about their portfolios.

Edmund Gomes

BSI Bank

"Banks should invest much more in technology"

Further, bankers mustn't treat discretionary mandates as an individual product in the same way they would look at an investment product. Instead, they need to position it as a service and understand how it is offered to clients.

Related to this is the fact that risk management is a more important part of conversations with clients than ever before, added practitioners.

Wealth preservation through lowering the volatility of portfolios through more careful asset selection, or reducing FX exposure through hedging, for example, show how the focus for clients in today's uncertain economic environment has become so prominent.

"Managing money for clients today is not just about picking stocks – rather it is knowing when to take risk and when to avoid risk," says Mak at Pictet. "We build our advisory platform around these principles so that we can use the right products to execute specific strategies."

Nick Hoar, managing director and head of Asia Pacific at Neuberger Berman, RMs should encourage their clients to take a longer-term view when investing in the equity and bond markets.

The role of advisory today is more aligned with tactical asset allocation, agrees Mak, and also time looking at balancing this with long-term investments and exposure for clients.

"Too often I see Asian investors invest into stocks and bonds only to divest shortly thereafter," says Hoar. "I don't believe that this short-term trading approach is the right way to invest in the financial markets."

Instead, he says RMs should work with their clients to develop a long-term asset allocation framework based on their risk/return profile and then invest accordingly with an understanding and appreciation that, over the long term, investing in stocks and bonds produces better returns that cash on deposit at the bank.

INVESTMENT ADVICE IN ACTION

Providing effective investment advice should mean delivering the right solutions to a client depending on their needs and risk profile, says Alfred Mak, head of investment products & advisory at Bank of East Asia.

Henderson Horizon Asian Dividend Income Fund

Fixed income products usually give you regular payouts with lower capital growth. While most equity funds offer the reverse. Now you can have the best of both worlds with the Henderson Horizon Asian Dividend Income Fund. The Fund handpicks prime Asian stocks for sustainable dividends. And for the year ending 2011, the Fund paid an attractive yield of 6.87%*. So, look to the vibrancy of Asia to enjoy an attractive regular income and potential capital growth.

Historical Annual Distribution Yield	
2007	4.91%
2008	5.51%
2009	4.61%
2010	5.94%
2011	6.87%

* The distribution rate is calculated based on the NAV price on the record date. Annual distribution rate is the total sum of the distribution rate for the 4 quarters of the relevant year. Positive distribution rate does not imply positive return. Intended quarterly dividend distribution and yield can fluctuate and are not guaranteed. Past distribution yield is not necessarily indicative of future or likely distributions or yield.

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Henderson GLOBAL INVESTORS

Alexis Calla

Standard Chartered Bank

> "Competency developed through ongoing training will remain essential to developing trust with clients"

Yet much is often lacking across various firms when it comes to an RM advising a client about their portfolio.

"There is a lot of time spent at the outset discussing the asset allocation for a portfolio, and agreeing this in writing – which is a key task – but the real issue is in the implementation process," says Sandro Steiner, partner and managing director of independent asset manager OLZ Wealth Management in Singapore.

Implementation means the selection of products and securities. "That's where the RMs and their institutions start earning money," he says. "And because most RMs get paid based on revenues generated through the client, more-often-than-not the needs of the company managing it will be satisfied by selecting costly products."

To justify the investment, RMs often use returns-led stories to target the "greed" of the investor, he explains.

For RMs to clarify the fact that more returns only come with more risk, and that an environment of almost zero interest rates makes beating inflation more difficult, takes a lot more time. Yet most clients need this kind of education, since many high net worth (HNW) individuals in Asia have made their money as entrepreneurs in the "real" economy, which has different rules from the financial markets.

It is also important for advisers to tailor their advice according to their own skills and capabilities.

"Different RMs have different skills, and some might be better at developing relationships than advising clients on products," says Mak. "We have to work closely with RMs to help them depending on their individual needs. Our RM and investment advisory teams report into one head, so it becomes a joint effort.

But regardless of skill-set, the focus should be on risk and cost, which can be measured and managed, rather than returns.

"Another principle we stick to," adds Steiner, "is to hold only securities and products which can be sold quickly. Investments in real estate and private equity are mostly done directly by the client. We therefore concentrate on building an efficient and liquid portfolio. This means holding asset classes – mainly bonds and equity – which diversify among each other. Another important task we focus on is the allocation within the asset classes."

At the end of the day, he says, clients know the difference between what they can expect – which is rational – and wishful thinking.

Much of the success an adviser will have comes if they win the trust of their clients.

For a firm like Pictet, for example, this means show that the firm's interests are aligned with those of its clients. "Our independence, supported by a partnership structure since 1805 and the absence of investment banking operations allows us to avoid the inevitable conflicts of interest," says Mak.

More tangibly, it is also important to be able to gain credibility in relation to track-record.

"We can do that by following up on our ideas and convictions on a daily basis to monitor the performance," explains Mak. "This enables us to show clients how our ideas would have performed. This is done for any actionable idea – ranging from FX to fixed income to equities. We have been doing this since October 2011. This can prove the quality of advice and shows our commitment to after-sales service and follow up. It is not easy to do this well."

In addition, banks should invest much more in technology, says Edmund Gomes, head of active advisory, wealth management services, Singapore, at BSI Bank.

"They are running market risk across all products, and need to much better understand this. This will enable the banks to drill down much more easily and keep an eye on trading activities before any potential problems or issues arise with clients in relation to risk controls and suitability issues.”

Alexis Calla, global head, investment advisory and strategy, group wealth management, at Standard Chartered Bank, agrees that technology is key to improving transparency.

“It also gives the [wealth management] organisation the possibility to enhance their scale and productivity.”

“In addition,” he adds, “competency developed through ongoing training will remain essential to developing trust with clients.”

Tobias Bland
Enhanced Investment Products

“An advisory model where people are paid on success encourages better-quality advice”

TOWARDS A FEE-BASED FUTURE

Central to the drive to improve the quality of advice is the fact that clients are likely to have to pay for it at some point. This will be the real test for an RM.

“An advisory model where people are paid on success encourages better-quality advice,” says Tobias Bland, chief executive officer of Enhanced Investment Products. “In such an environment, those advisers which are diligent and do the research to come out with good investment selections will retain clients; those who don’t won’t survive.”

In fact, he adds, “that wouldn’t be a bad thing as there are too many institutions for them all to be successful.”

Practitioners say they expect to see more fee-based arrangements within the private banks, which calls for a complete change in mindset in relation to how many of the banks work.

Dennis Harhalakis
Chinatrust Commercial Bank

“A flat-fee model, for example, means everyone is aligned, and it significantly reduces the possibility of mis-selling”

In markets such as the UK, Australia and India, the regulators have made the push.

And in Singapore, where the Financial Advisory Industry Review is under way and is expected to be implemented in the next few months, wealth management organisations need to prepare themselves and their advisers quickly.

One way the role of advice might change is the creation of a more sophisticated quasi-portfolio manager role, supporting a team of RMs.

It is about creating an environment where an adviser is no more incentivised to sell one product compared with another, and is in fact incentivised to sell whatever works for the client, says Dennis Harhalakis, head of products & services, private banking, Chinatrust Commercial Bank.

“A flat-fee model, for example, means everyone is aligned,” says Harhalakis, “and it significantly reduces the possibility of mis-selling.

Also, anything which increases transparency also increases trust.”

Q&A

KEY COMPONENTS OF WORLD-CLASS INVESTMENT ADVICE

Delivering solid investment advice that manages client expectations and builds trust comes down to advisers having open and realistic conversations with clients about products, strategies and other topics they know, says Sen Sui, senior director and head of markets and investment solutions for Credit Agricole Private Banking in Asia.

How can advisers ensure they deliver solid investment advice to their clients?

By the time an adviser meets with a client, the client has often already seen several other banks, so has a reasonable understanding of products and the market environment. So it is important that advisers recommend to clients only those products and strategies for which advisers understand and have a strong conviction.

It is generally not a good idea to talk to clients about products that advisers don't understand, or wouldn't buy themselves. Even in situations where clients like an idea, I wouldn't recommend an adviser to follow through on this sale to a client.

Clients want to be able to look into the adviser's eyes and see the conviction. This applies to whether it is a discussion about asset allocation, an individual product, exiting a position, or adding leverage – the principle is the same.

What can advisers do to ensure a higher success rate with clients?

It is important to know the client's background and investment history to ensure you can advise them properly.

Rejections tend to come mainly when a client gets a sense that the adviser doesn't have the conviction or sufficient knowledge about the individual product or strategy.

If a client doesn't understand, it is easier to move on to something else and avoid putting any stress on the adviser-client relationship.

How can advisers properly manage a client's expectations?

Good advice is also about building expectation openly and realistically with a client.

“Clients want to be able to look into the adviser's eyes and see the conviction.”

So, at the start of this year, for example, a lot of clients might have said to their advisers that they wanted to generate a 10% to 15% return. Advisers would often tend to agree to create a portfolio to achieve these returns.

However, this is ambitious in today's environment, so taking that approach won't work and will require, probably halfway through the year, the adviser to recommend higher-risk products just to achieve the client's expected return.

Instead, the adviser should have encouraged clients to expect a more realistic return, clearly explaining the potential risks client may experience before achieving such a return. Then based on such understanding, they can construct a portfolio which can achieve the targeted return by managing the risks.

Knowing a client is also about setting out a clear and realistic picture, not just agreeing to what they want and then being forced into making decisions which are not in the client's best interest.

How should advisers take a more comprehensive approach to portfolio reviews?

Portfolio reviews and rebalancing need to be more frequent and done in a more sophisticated way.

Relationship managers, for example, need a more detailed understanding about what each type of financial instrument can deliver within different market environments. And this has to be matched against the background and profile of each client and their objectives.

It is not about just slotting clients into distinct buckets according to a defined risk profile, or putting all assets into a single balanced portfolio. Portfolios must be dynamic.

Clients also need to understand the differences between strategic and tactical allocations.

It is also important to explain and reflect macro events into discussions with clients. It is not just about portfolio performance, but information which is helpful for them in assessing the broader economic environment for their businesses and real estate investments.

Clients increasingly appreciate more trustworthy and independent information, and this can often lead to trades being done on the basis of this more open relationship. ■

Sen Sui

Credit Agricole Private Banking

"Clients increasingly appreciate more trustworthy and independent information, and this can often lead to trades being done on the basis of this more open relationship."

Co-published article

USING ACTIVE ALLOCATION TO CONTROL PORTFOLIO VOLATILITY

Active multi-asset managers can use the varying characteristics of different asset classes to target lower volatility throughout the investment cycle, and fine-tune the asset mix to deliver that, says Toby Nangle, head of multi-asset, Threadneedle Investments.

Investing is all about risk and return. Most rational investors would prefer to maximise their returns, but every investor has his or her own individual attitude towards risk. Moreover, the potential returns available from different kinds of investment, and the risks involved, change over time as a result of economic, political and regulatory developments as well as a host of other factors.

Asset allocation is the process that seeks to balance these risks and returns to meet the requirements of investors, and to manage that balance actively as conditions change. Portfolios can incorporate a wide range of different assets, all of which have their own characteristics.

The notion of holding a range of assets for capital preservation is not a new one and investment strategies designed to control volatility of returns have obvious appeal. Add to this that the trajectory of the global economy is not certain, and unconventional measures are being used to manage capital flows, it's not surprising that there has been an upsurge of interest in multi-asset strategies.

WHY DIVERSITY

If we could see into the future there would be no need to diversify our investments. We could merely choose a date when we needed our money back, then select the investment that would provide the highest return to that date. It might be a company share, a bond, a commodity, or any other kind of asset.

The problem is that we do not have the gift of foresight. We can use current information to forecast what is likely to happen in the future, but we can never be sure. There is considerable dispersion in the performance of asset classes every year.

Diversification helps to address this uncertainty by combining a number of different investments.

The core premise is that by holding a basket of assets which are not perfectly correlated with each other, including some that may be higher risk, it may be possible to enhance return and reduce the overall risk of a portfolio.

This is illustrated by a simple example which shows performance of two different assets, and a 50:50 combination of the two. The combination achieves a lower final return than the better performing of the two, but with lower volatility and a smaller maximum loss.

Recent episodes of high market volatility have refocused attention on how diversification can be used by investors to manage the degree to which portfolio value fluctuates.

Stock market volatility can be measured by using the S&P 500 VIX.

Before the global financial crisis, volatility had been relatively subdued; in 2008, it surged, and there have been a number of periods of heightened volatility since that point.

Toby Nangle
Threadneedle Investments

"One outcome of the new, more uncertain environment has been an upsurge of interest in multi-asset funds"

INVESTOR INTEREST IN MULTI-ASSET STRATEGIES

One outcome of the new, more un-certain environment has been an upsurge of interest in multi-asset funds.

Multi-asset funds designed to control volatility of returns have obvious appeal. Such funds typically include traditional securities like equities, bonds and cash, as well as commodities and foreign exchange.

Allocation decisions for the newer multi-asset strategies are underpinned by methodologies which focus comprehensively on risk allocation, not capital allocation. While it was once the norm for investors to spread their assets via a number of different mandates or use traditional balanced portfolios, multi-asset strategies offer a single route to a wider investment universe.

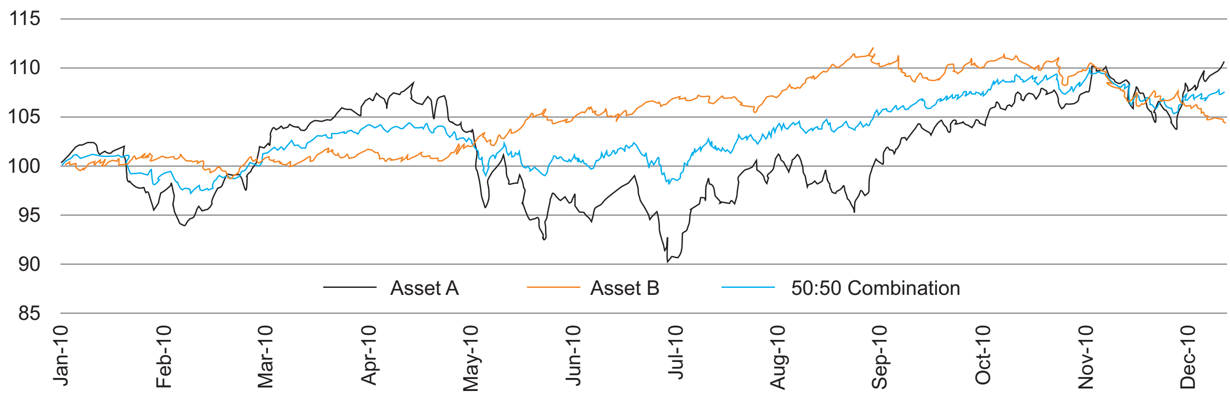
Multi-asset managers have the advantage of being able to take the broad view; looking across and through asset classes for incongruous valuations. Drawing on modern portfolio theory, which suggests that holding a basket

Annual returns 2000 – 2012

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 YTD	Ann
US Equities	-13%	-12%	-23%	29%	11%	6%	15%	6%	-37%	27%	15%	2%	14%	1.3%
Global Equities	-13%	-17%	-20%	34%	15%	10%	21%	10%	-40%	31%	12%	-5%	10%	1.5%
Emerging Market Equities	-31%	-2%	-6%	56%	26%	35%	33%	40%	-53%	79%	19%	-18%	6%	8.2%
US Bonds	13%	7%	12%	2%	4%	3%	3%	9%	14%	-4%	6%	10%	2%	6.2%
Global Bonds	2%	-1%	19%	15%	10%	-7%	6%	11%	11%	3%	5%	6%	2%	6.3%
US High Yield Credit	-4%	6%	-1%	27%	11%	3%	12%	2%	-26%	56%	15%	5%	10%	7.7%
US IG Credit	9%	11%	10%	8%	5%	2%	4%	5%	-7%	20%	10%	8%	8%	7.2%
DJ-UBS Commodity TRR	32%	-20%	26%	24%	9%	21%	2%	16%	-36%	19%	17%	-13%	4%	6.0%
Gold	-5%	2%	25%	19%	6%	18%	23%	31%	6%	24%	30%	10%	8%	15.0%

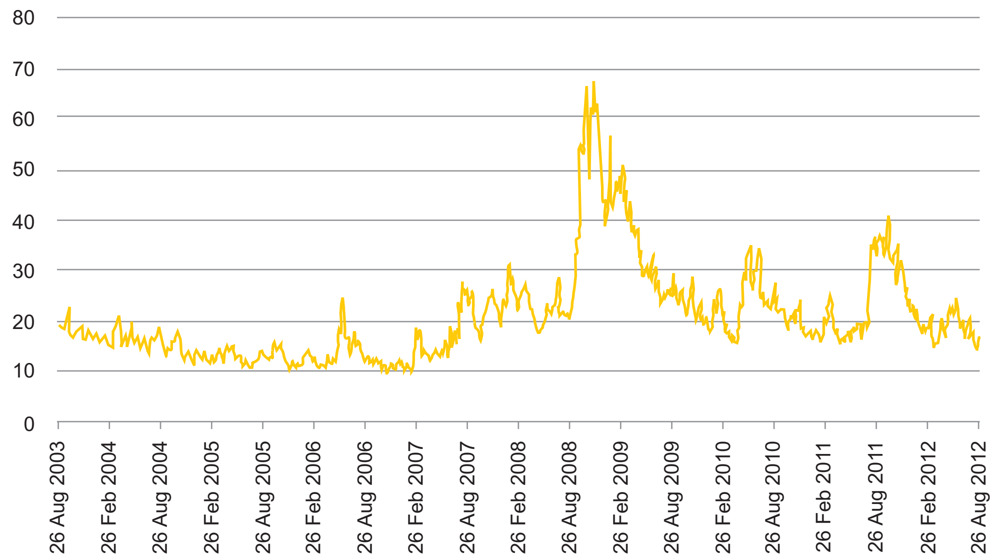
Source: Bloomberg, September 2012

Diversification between two assets



Source: Bloomberg, September 2012

Market volatilily, S&P 500 VIX



Source: Bloomberg, September 2012

of imperfectly-correlated assets can deliver enhanced returns with a reduced level of risk, multi-asset strategies aim to diversify effectively.

While managers working within a single asset class are constrained, active multi-asset managers can use allocation decisions to exploit pricing differences between classes and contain downside risks.

Successful multi-asset funds target equity-like returns, but with lower volatility. Returns may be capped on the upside to reflect the "cost" of downside protection.

Active multi-asset managers can use the varying characteristics of different asset classes to target lower volatility

Threadneedle (Lux) Global Asset Allocation Fund – key facts:

- Aims to generate equity-like returns with up to two-thirds equity volatility
- Long only, unleveraged, index-unconstrained investing
- Managed by a highly-experienced asset allocation team of four, with a combined experience of 96 years, with diversified experience across all major asset classes
- Flexibility to dynamically allocate across equities, fixed income, commodities and cash
- Emphasis on managing downside risk. Capital preservation is key to the fund, and this is managed through active asset allocation using our research, strategy and portfolio management processes
- Strong year-to-date performance of 7.41% net of fees (as at 31 September 2012)
- SGD hedged share class
- US$135.5 million in size
- Around 40% of Threadneedle's total AUM in asset allocation mandates and funds

throughout the investment cycle, and fine-tune the asset mix to deliver that.

Less variable returns, amplified by compounding over long timeframes, offer a more sustainable investment strategy than one characterised by greater variability. Active decisions can spread risk, and they can also help to minimise the impact of severe, negative market outcomes.

While diversification cannot offer shelter from extreme events, and may not be effective over shorter time scales, combining assets within a single portfolio may make it possible to achieve a better return per unit of risk over the long term.

THE THREADNEEDLE APPROACH

As the trajectory of the global economy is not certain, and unconventional measures are being used to manage capital flows, Threadneedle Investments believes that active multi-asset mandates offer ways to explore how to balance risk and return more effectively.

Threadneedle believes that our specialist investment teams add more value for investors when working together across multiple asset classes than they would in isolation from each other. As such, our investment processes of our teams are structured in a way to extract value across multiple asset classes from the cross-fertilisation of ideas.

The Threadneedle Investments multi-asset investment philosophy can be summarised in three statements:

- Price inefficiencies between asset classes can be profitably exploited via dynamic top-down asset allocation (eg. should we buy gold or oil versus bonds or equities?)
- The use of in-house funds in multi-asset portfolios enhances portfolio returns and facilitates best-in-class portfolio risk management (because this controls costs; and knowing what is in a given portfolio offers insights on how much risk is being taken)
- There is valuable information to be gleaned from investment flows into and between asset classes ■

For more information regarding how Threadneedle Investments manages multi-asset strategies and the Threadneedle (Lux) Global Asset Allocation Fund, contact:

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STRIVING FOR A MORE PROACTIVE ADVISORY OFFERING

Wallace Woo, managing director, senior investment counselor in the key clients group at BNP Paribas Wealth Management in Asia, explains how the firm is developing its advisory and product offering to engage clients in a more targeted way.

How can the Asian wealth management industry address the significant challenge it faces from balancing the need to make money while also fulfilling increasingly-complex regulatory obligations?

One way to address these potential conflicts might be to shift from a brokerage model to a fee-income model for managing clients' wealth.

Also there will be a paradigm shift from a trading-oriented approach to an asset allocation-oriented model.

To what extent is there a move towards an advice-based, fee-for-service model? And how can private banks deliver this?

I would say all Asian private banks are looking into that model. The question is which one will be the first to succeed without causing outflows in assets under management (AUM). If one bank proves to be successful in doing so, others will definitely follow suit.

In addition, the key is how to justify the fee. So perhaps there would be some basic fee plus a small percentage of performance fee, but with a cap to prevent excessive trading and taking too much risk for the portfolio.

What do clients, in fact, expect from their advisers?

Clients expect fair and objective comments on various products and suitability. Being a trusted consultant is important.

To what extent is the industry meeting client expectations?

When the performance of the portfolio does not meet clients' expectations, it is due to market performance.

For BNP Paribas Wealth Management, our clients have been generally satisfied with the performance of their portfolio this year, which tend to include high-dividend stocks, income and bond funds, Asian credit, French insurance credit and some structured product ideas.

Given the various distribution channels within Asian wealth management, what are some of the biggest challenges you face in differentiating your offering?

At BNP Paribas Wealth Management, we try to propose a customised and pedagogical approach to our clients. Whilst market conditions are not helping to find new investment solutions for our clients, we have tried to focus on alterna-

Wallace Woo

BNP Paribas Wealth Management

tive asset classes like FX, which is considered one of the alpha-generation products.

As this asset class can appear quite complex, we provide concise technical and fundamental analyses.

By leveraging on BNP Paribas Corporate and Investment Bank division, we are also able to offer innovative and competitive FX solutions, investment and hedging strategies.

What are private clients investing in, and are they satisfied with the performance?

Under the current low-yield but risk adverse environment, the majority of clients are focused on fixed income, which has been performing well this year.

In particular, for those aggressive clients who have engaged in leveraged plays on fixed income, returns have been very good.

Given the dynamic evolution of the product offering that should be occurring, how do firms ensure their RMs maintain their knowledge to appropriately sell new products and strategies?

Ongoing product training and morning meetings are essential. Partnership with dedicated investment product specialists for the marketing team also helps as RMs can learn from such investment specialists when products are being introduced at client meetings.

What are you doing to create and market funds in a way that can help RMs engage clients more proactively? How can these processes be improved?

We regularly engage with our RMs and also our internal asset manager to create innovative and timely offerings. One example was during October to November 2011, when the credit markets were in turmoil, and we saw that Asian high-yield convertible bonds were trading at distressed levels. However, access to these ideas was best achieved through a diversified fund rather than single security.

Hence, our internal partners quickly put together a fund vehicle offering access to these bonds. This was the only one of its kind in the marketplace, which offered access to Asian high-yield convertible bonds, with targeted high annual payouts, and approximately high single-digit to low double-digit returns per annum.

In addition, this fund was managed by the team that boasts the longest track record (more than 16 years) in the Asian convertible bond space.

What other new or innovative products are you creating at the moment which you think will engage clients?

At the moment, clients welcome products with return-enhancement and risk protection. In a low interest-rate environment, clients are interested to invest into those instruments that can enhance the overall portfolio return and deliver steady income.

With uncertainties created by the economic environment, any ideas that can reduce the downside risk of a portfolio, or any ideas to hedge income portfolios, are in favour. ■

Feature article

DEALING WITH A SHIFTING INVESTOR MIND-SET

Asia's high net worth investors are now looking for more guidance on allocating their assets over the long term and preserving wealth. Banks and product providers must adapt accordingly.

Against a volatile and uncertain market backdrop, wealthy Asian investors seem finally to be more focused on how they allocate their assets over the long term.

Investors are generally still relatively cautious and skeptical, says Amy Cho, managing director and regional head of business development for Asia Pacific (ex Japan) at Pictet.

"Their main goal now is to preserve wealth besides looking for means of capital appreciation."

Rather than continuing to play the role of a broker with a lot of trading activities for clients, private banks therefore need to offer much more.

"More and more clients are looking for steady income, so the focus

"Rather than continuing to play the role of a broker with a lot of trading activities for clients, private banks therefore need to offer much more."

is the extent we can provide a one-stop service, ranging from IPOs to co-investment opportunities to corporate financing for their own businesses," says Bill Tsang, managing director, regional head of product, wealth management, Asia ex-Japan, at Nomura.

The drivers for changes in clients' investment objectives include heightened risk aversion, which is not a good thing for individuals to be able to meet their long-term savings and investment ambitions.

Says Ajai Kaul, chief executive officer and head of sales at AllianceBernstein in Asia ex-Japan: "We believe that investors should be taking a more considered, longer-term and structured approach to their investments."

It is also important to have a reasonable exposure across asset classes and geographies for when different markets come back, adds Kaul.

Cho at Pictet says HNW clients or professional investors are open to new and interesting investment ideas, assuming that the investment case is sound and that the performance or track record is there.

Bill Tsang
Nomura

"More and more clients are looking for steady income, so the focus is the extent we can provide a one-stop service"

NEW APPROACHES TO ASSET ALLOCATION

The importance of strategic and tactical allocations is even more critical in an investor's path of wealth management now, says Victoria Ip, managing director and Asia Pacific chief investment strategist at Merrill Lynch Global Wealth Management.

"As opposed to the conventional approach to asset allocation where there is a high reliance on past history to come out with the strategic asset allocations, we have incorporated our estimates of how the future looks in terms of return, risk and correlations," says Ip.

The other approach is dynamic asset allocation, which harvests short-term investment opportunities while maintaining a focus on achieving a client's long-term financial goals.

According to Alfred Mak at Bank of East Asia, the focus on advice needs to be split between wealth creation and wealth preservation, which depends on the individual client.

"For wealth creation, it is more about investment products and having a slightly higher risk tolerance," he explains. "For wealth preservation, other structures and services are relevant, but we tend to go for more conservative products."

In all cases, however, the emphasis is on diversification. It is no good to make 50% returns one year, and experience losses of 40% the next.

"To do this, the approach is blending different asset classes, rather than concentrating on different assets within the same asset class," says Mak.

Victoria Ip
Merrill Lynch Global Wealth Management

"The importance of strategic and tactical allocations is even more critical in an investor's path of wealth management now"

Andrew Fung

Hang Seng Bank

"RMs should start with clients with whom they have a longer relationship, or who already have a diversified portfolio"

There are, however, challenges in focusing on diversification – for example, matching product risk to risk profile of each client. In general, the regulatory requirements have made relationship managers (RMs) much more reluctant to advise clients about unauthorised products which don't fit with an individual client's risk profile.

Given that suitability can only be done after RMs understand a client's background, financial status, life stage and risk appetite, Andrew Fung, executive director, head of global banking and markets at Hang Seng Bank, says RMs should start with clients with whom they have a longer relationship, or who already have a diversified portfolio. This is instead of trying to service those clients for whom the RMs have limited information.

In terms of the specific allocation, significant changes in the macro-economic environment means asset allocation needs to very different from the days of bull markets when the focus was going to the stock market and buying equities, says Fung.

"Now, [there needs to be] a reallocation of assets given that equities are not a good asset to hedge against inflation," he explains, "and I don't foresee much of a change in the outlook for the global economy."

Getting the basics right by managing the various risks is the basis for investors to be able to create effective and suitable portfolios.

In addition to being aware of external risks from market volatility and the economic cycle, investors should also be able to understand how a portfolio would perform under different market scenarios, says Danny Howell, head of wealth management for Towers Watson in Asia.

"[This] can help clients better understand the risks implicit in their decisions and help build a better, more tailored portfolio," explains Howell. "Another important consideration is liquidity risk – and the constraints and limitations on when a client can trade their assets."

In addition, portfolio concentration introduces risks that can be easily reduced through the proper advice on appropriate diversification.

Trading too frequently can also reduce returns. Appropriate "rebalancing" of a portfolio in changing market conditions is certainly warranted, but trying to pick short-term market trends for the unsophisticated investor creates risks, says Howell.

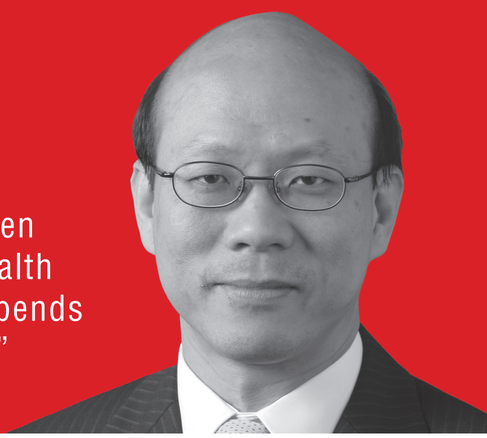
A GROWING ROLE FOR FUNDS

In Asia, the engagement of funds by private clients has typically been more for advisory purposes. But a lot of private banks have been putting in place more structured advice around the role of funds in client portfolios.

Alfred Mak

Bank of East Asia

"The focus on advice needs to be split between wealth creation and wealth preservation, which depends on the individual client"



This might encourage a more rational approach to diversification for clients in today's environment.

For example, says Nick Hoar at Neuberger Berman, investors who like to select individual stocks and bonds to get exposure to a particular region or asset class should consider using a mutual fund instead.

"A fund offers the investors a diversified portfolio and one that is professionally managed," he explains.

Selecting the right fund managers is critical, however, and there are certain due diligence techniques and decision-making criteria to achieve this, says Moz Afzal of EFG Asset Management.

When selecting fund managers, consistency is the most important thing to look for.

It is then necessary to perform macro research and style analysis to try to understand the valuation base, he explains.

"This is important, because manager returns have been found to be inconsistent as a result of style."

Ajai Kaul

AllianceBernstein

"It is important to have a reasonable exposure across asset classes and geographies for when different markets come back"

As a result, having a selection process which monitors the consistency of each style, as well as of each manager to each style, and then which is able to do the asset allocation and macro-economic research required to identify a preferable strategy, makes constructing a portfolio a bit easier, says Afzal, as style bets then become more transparent.

According to Afzal, it is important to go with specialist style characteristics, which when matched with an asset allocation view, are able to generate superior returns.

For example, many people in their manager selection look simply at past performance, he explains.

However, it could have been just the style which was out-performing, not necessarily the manager adding substantial value.

A key thing for advisers to be aware of in the selection process, adds Afzal, is that a manager might say they are a large-cap manager, but if they have already made their returns they might then look to shift into medium- or small-cap funds.

That is a reason to fire a manager, explains Afzal.

To think about the fund selection process more practically, therefore, Afzal says he will often buy managers which could well be under-performing over the past five years.

This is because his macro view leads him to believe that the specific strategy will start to improve, or instead that valuations in that strategy will start to improve. ■

Amy Cho

Pictet Asia

"HNW clients or professional investors are open to new and interesting investment ideas"

Co-published article

HOW TO BENEFIT FROM BULL AND BEAR MARKETS

For investors looking for a simple and flexible financial product to efficiently implement a market view, and at the same time manage risk, leverage certificates meet all these requirements and more, says David Schmid of the EFG Financial Products Division within EFG Bank.

Let's start off with a practical example. Say the S&P 500 has been trading within a range of 1280 to 1420 year-to-date. Periods of upward movement have often been followed by corresponding corrections. While the index rose by 10% between January and March, it experienced a sharp correction of 10% between April and May, only to rise again by almost 10% between June and July.

Even though sideways trending markets are interesting for yield enhancement products such as equity linked notes (ELNs), sophisticated investors may also benefit from short-term trends with leverage certificates.

HOW A LEVERAGE CERTIFICATE WORKS

The basic idea of a leverage certificate is that investors fully participate in price increases and decreases of the underlying, whilst only investing a fraction of the price of the underlying; the remaining part of the price is financed by the issuer.

This creates a leverage, which does not have an impact on volatility.

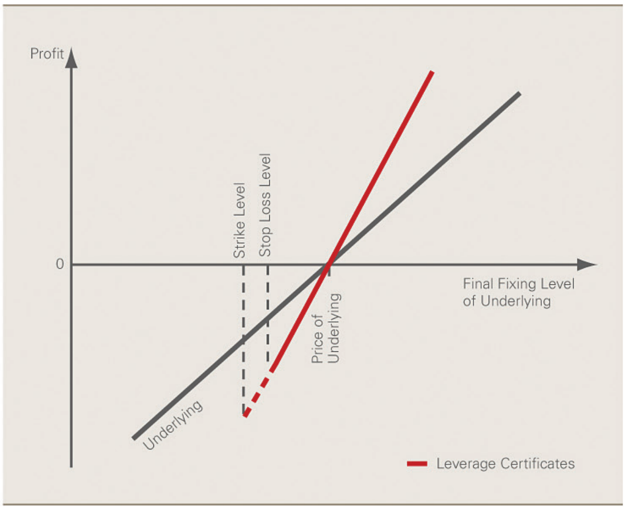
Different categories of leverage certificates

Leverage certificates are designed to efficiently implement bullish and bearish market views.

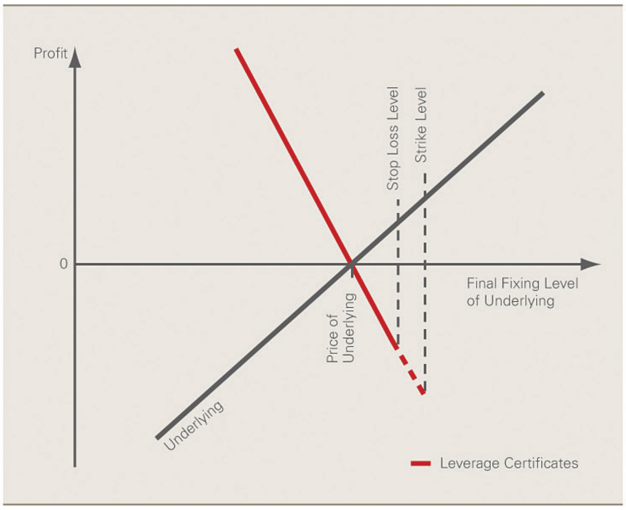
With this in mind, two types of leverage certificates can be identified in the market:

- **Bullish** leverage certificates provide positive returns when the price of the underlying increases, and vice versa
- **Bearish** leverage certificates provide positive returns when the price of the underlying decreases, and vice versa

Bullish leverage certifcate



Bearish leverage certifcate



KEY ADVANTAGES OF LEVERAGE CERTIFICATES

Cost effectiveness and risk reduction

Because leverage certificates involve neither margin payments nor high transaction costs, they are cheaper compared with many other instruments. Compared with traditional futures, for instance, they have no margin calls.

Further, a built-in stop-loss level, triggers an automated redemption, which enables the maximum loss to be capped at the invested amount.

Simplicity and transparency due to direct exposure

Leverage certificates are able to combine the flexibility of warrants (call or put options) with the transparency of traditional futures.

These characteristics give them an important advantage over many other financial instruments.

For example, unlike traditional derivatives (such as options), the mark-to-market price of leverage certificates is solely driven by the change in the price of the underlying and is generally not impacted by other parameters such as volatility or time to maturity.

Hence, the value of a leverage certificate is very simple to calculate.

Transparent pricing

The theoretical price of a leverage certificate is determined by the strike level of the leverage certificate and by the price of the underlying. This makes the valuation of the price leverage certificate very simple:

- *Theoretical price bullish leverage certificate = (price of underlying - strike level)*
- *Theoretical price bearish leverage certificate = (strike level - price of underlying)*

For the most part, the absolute price changes of a leverage certificate closely track the absolute price changes of the underlying. At maturity, leverage certificates are redeemed at the theoretical price based on the final price of the underlying.

	Leverage certificate	Future	Warrants
Influence of volatility	No	No	Yes
complex valuation of the price	No	No	Yes
Study of complicated parameters such as the greeks	No	No	Yes
Loss of time value	No	No	Yes
Contract sizes	Flexible	Fixed	Flexible
Need of a margin account	No	Yes	No
Possibility of a margin call	No	Yes	No
Possible loss	Limited to investment	Infinitive	Limited to investment

> This is why leverage certificates have become the vehicle of choice for many European and Asian investors.

Leverage and stop-loss

Since the issuer finances a significant part of the price of the underlying, the investor only has to pay a fraction of the price, and yet still has full exposure to price movements of the underlying. This creates the leverage.

The underlying increases by 10% and due to the leverage of 5, the value of the leverage certificate rises by 50%.

The leverage offered by a leverage certificate works both ways. While it enhances upside returns, it also magnifies losses on the downside. To reduce downside risk, a stop-loss level is built into leverage certificates.

The stop-loss not only reduces downside risk but also avoids margin calls. Compared with traditional futures, the potential loss is capped with no further obligations, ie. the investor can't lose more than his initial investment.

APPLICATIONS

As a hedging instrument

Leverage certificates can act as attractive hedging instruments as they do not require collateral and do not trigger margin calls. Because of their construction, leverage certificates are cheaper as compared with other hedging instruments.

More dynamic portfolios

Leverage certificates allow investors to leverage their exposure to certain underlyings. In a core-satellite-strategy, for instance, leverage certificates can create a more dynamic portfolio. Investors can also shift existing positions to leverage certificates in order to increase the liquidity of a portfolio.

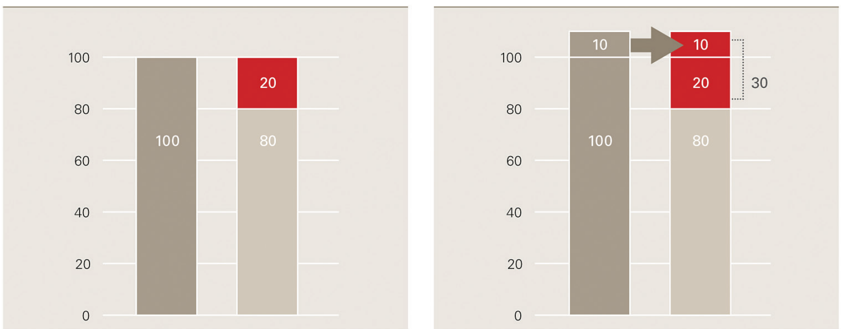
Diverse range of underlyings

Leverage certificates are offered on a broad range of asset classes, including equity single stocks, equity indices, currencies and commodities. It is also possible to invest in innovative leverage certificates on emerging market underlyings, on baskets of different assets, or even long/short strategies on multiple underlyings.

Leverage certificates offer a lot of advantages compared to traditional financial instruments. They combine the flexibility of an option with the transparency of a future.

This is why leverage certificates have become the vehicle of choice for many European and Asian investors over the past few years. In some countries, leverage certificates are among the most widely traded securitised financial products. ■

Scenario



Day 0: initial investment

Value underlying	100
Strike Level (financed by issuer)	80
Value leverage certificate	20

Profit +10% →

Profit +50% →

Day 1: after market movement

Value underlying	110
Strike Level (financed by issuer)	80
Value leverage certificate	30

Source: EFG Financial Products Division

EFG Bank
EFG Financial Products Division

For more information, contact:

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EFG Bank
EFG Financial Products Division

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The EFG Financial Products Division was established in 2012 and is part of EFG Bank, Singapore Branch. It provides services for Accredited and Institutional investors in South East Asia. The division´s main purpose is to introduce business to EFG Financial Products AG in Zurich, Switzerland.

EFG Financial Products AG goals are to provide a high level of transparency and service to our clients and to develop attractive investment solutions across all asset classes for them. The development of solutions is backed by first class IT infrastructure and delivered by a team of well over 200 professionals.

EFG Financial Products' structured products are guaranteed by EFG International AG, which is the majority shareholder of EFG Financial Products Holding AG and a Swiss private banking group with circa 2'500 employees operating in over 30 locations.

EFG Financial Products AG offers

- High transparency vis-à-vis clients and counterparties thanks in part to product reports, which EFG FP AG were the first provider to introduce.
- A high level of service thanks to a scalable IT platform.
- Excellent liquidity continuously confirmed by the top spot in the Payoff Market Making Index (Switzerland).
- Security as a Swiss securities dealer and part of a large Swiss private banking group.
- Sustainability: The business and compensation model is consciously targeted at promoting longterm thinking and action.

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Q&A

WHY ADVISERS NEED TO MANAGE INVESTORS

By factoring in investor emotions and behavioural biases as part of their advice, relationship managers (RMs) and advisers can help their clients manage their portfolios in a much more effective way, says Peter Brooks, behavioural finance specialist for Barclays in Asia Pacific.

Why is behavioural finance relevant in the context of giving investment advice?

It is important for RMs and advisers to care about how people make their financial decisions – and not decisions that we, as a finance industry, tell them they should be making.

We are all inherently fallible to our own emotions and many of our decisions are based on feelings of fear, inaction and a lack of confidence. Any adviser who has talked in detail with a client over the last three to four years about their portfolio would have realised that telling them to "maximise long-term returns" is unlikely to actually get them to do anything positive.

Psychology is therefore very important to allow us to manage investors and provide advice to them in a much more effective way.

So what does "managing investors" mean? And how can you do this?

Investment management is as much about investor management as it is about managing the physical investments.

The financial crisis has created a lot of discussion about the effectiveness of diversification, asset allocation and tactical asset allocation. While I believe that these components are the foundation of a good and sound financial plan for all clients, there is another dimension to it.

It doesn't work to simply tell clients what their optimal portfolio should be, and that they need to hold it through all market conditions. Clients will become fearful, exuberant or even greedy depending on the stage of the market cycle. It is therefore important to manage this emotional rollercoaster that clients go through.

Otherwise, their own emotional dispositions and potential exuberance at the top of the market, when risks perceptions are at their lowest, will cause them to put money in at that point; and their fear and heightened sensed of risk at the bottom of the market will cause them to bail out.

It is incredibly difficult psychologically to buy during falling markets, and unless advisers can control and manage clients' emotions, you are simply going to cost return by buying too high, holding through the dips, getting fearful and then selling at the bottom.

What is wrong with recommending an optimised portfolio?

Diversification and asset allocation does not protect investors from losses. It is common that many clients will base their financial decisions on what they see when turning on financial news channels such as CNBC and Bloomberg. And when they see their latest statement they will react to what has just happened in the most recent few months.

I often talk to clients about the concept of "emotional insurance". This simply means that at every point of the decision making, while I know that long-term asset allocation will maximise the chances of meeting long-term goals in the future, it is also important to give up some of that to "buy" emotional comfort today.

For example, in rising markets this might mean eliminating fears that an individual is missing out on easy returns that others are getting.

In falling markets, clients often exit the markets and move to cash as this definitely provides emotional comfort – but is very costly in terms of the potential long-term expected return of the portfolio.

So given that asset allocation on its own doesn't provide adequate emotional protection for clients, advisers need to add an additional dimension to provide that.

Is this not just an indication that we need more investor education to help eliminate behavioural biases?

I don't think we can just tell an investor not to be stressed. That does not help them. A client's willpower in their investing will gradually erode and advisers just delay the problem by telling them to think more rationally; eventually they will succumb to stress and ultimately pay a higher price to achieve their "emotional comfort".

Investor education definitely helps but the key is to provide the right kind of education. The ability to delay gratification in investing, along with the willingness to maintain self-discipline and stay with the strategy, are important – and the behavourial finance elements add a lot to these types of conversations.

So what can RMs and advisers do differently for investors?

There are a number of things that they can practically do. One way is to get clients to pre-commit to strategies and behaviours, and also understand why they are doing that. Costing themselves a little in performance to have a feature in a set of products or in their portfolio that enables them to stay invested can be very sensible – despite what the optimal portfolio might suggest.

Peter Brooks
Barclays

I would recommend that RMs try to understand what some of their clients' emotional drivers are and what their fears are. Then the RMs will have an idea of how they are likely to react in certain market situations.

Volatility is never good for investors and is likely to lead to more action as they try to get that "emotional comfort" so as to not be caught by the dips. However, the fear is they will not benefit from the rises either since they will be waiting on the sidelines. They merely consider the downside, and not the fact they will be missing out on the upside.

So rather than buying themselves the comfort by moving to cash, they could consider moving to products with some volatility overlay. This can include, for example, capital protection to take out some of the downside, so they stay invested longer.

To quantify the behaviour penalty investors suffer as a result of their emotions, estimates range from around 1.5% per annum up to 7% under-performance for equity investors. By not focusing on investor management, therefore, clients are likely to suffer a drag on their performance. ■

Feature article

GETTING MORE DISCRETIONARY TRACTION

Asia's wealthy have historically been less willing than their European counterparts to put much of their money into discretionary mandates. More relevant and flexible advice, however, along with better positioning of these offerings to clients, could make a big difference to the amount of discretionary assets banks can generate in Asia going forward.

Despite the reluctance of Asian investors to engage discretionary portfolios to date, the potential is real.

There is room for discretionary mandates in client portfolios, for example in a volatile market environment and in cases whereby it is difficult for an individual investor to efficiently manage a specific asset class, such as fixed income.

It all relies on bankers and advisers being able to encourage clients to look at the merits of discretionary mandates on an objective basis, rather than "pushing individual products" and giving clients the impression that this

> "The approach that many private banks take to positioning discretionary solutions is part of the reason for the lack of take-up to date across the industry in Asia."

Important:

- The BEA Union Investment Asia Pacific Multi Income Fund (the "Fund") seeks to achieve income and long-term capital growth by investing in an actively managed portfolio of debt securities, listed REITs, and other listed securities in the Asia Pacific region.
- The Fund invests in emerging markets and may be subject to higher liquidity and volatility risks.
- The Fund invests directly in listed REITs, equities and interests in trusts, and is thus subject to the risks generally associated with such asset classes, including but not limited to liquidity of the asset class, changes in investment sentiment, political environment, economic, business and social conditions in local and global marketplace.
- The Fund may invest in lower-rated fixed income instruments, including below investment grade and non-rated debt securities, which are subject to greater credit and liquidity risks than higher-rated securities.
- The Fund may enter into futures contracts for hedging and investment purposes. Given the leverage effect embedded in futures contracts, the Fund may be exposed to significant losses.
- Investors should not make an investment decision based solely on this material.
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- A dedicated investment team with an average of 14 years' experience in Asian equities and fixed income
- A portfolio mainly consisting of Asian high yield bonds, high dividend stocks, and REITS, aiming to generate an above-average stream of income
- HKD and USD unit classes with monthly dividends^

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1. Source: BEA Union Investment Management Limited. The quoted annualised dividend yield is for APM – USD Class A (Distributing) for the month of July 2012. Annualised dividend yield = (Dividend x 12) / last month-end NAV x 100%. Positive dividend yields do not indicate positive returns. ^ The dividend of the Fund is subject to the Manager's discretion and is not guaranteed. The Manager may make distributions from income and/or capital in respect of the distributing classes of the Fund. Investors should note that the payment of distributions out of capital represents a withdrawal of part of the amount they originally invested. Distributions in general will result in an immediate decrease in the net asset value of the Units of the relevant distributing classes. Charging all or part of the fees and expenses to the capital will result in income being increased for distribution, however, the capital that the Fund has available for investment in the future and capital growth may be reduced. All fees and expenses in respect of this Fund are charged to capital.

Investments are subject to investment risks. Past performance is not indicative of future performance. For full details and risk factors, please refer to the Explanatory Memorandum of the Fund. The Fund has been authorised by the Securities and Futures Commission ("SFC") in Hong Kong. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. This material has not been reviewed by the SFC in Hong Kong.

is all the industry can offer, or all that it is interested in offering.

DIFFERENT APPROACH TO ASSET ALLOCATION

Investors with discretionary man-dates in the Asian time-zone tend to be European clients, although there has been some increase in interest recently from older-generation Asian HNW individuals who are now more open to managed portfolios with total return mandates, says Ron Lee, head of investment advisory for Union Bancaire Privee's (UBP's) private banking business in Asia.

But the number of clients in discretionary mandates is still a small portion overall, roughly around the 5% to 7% mark, on average, for total assets under management (AUM).

"Asian investors tend to shy away from discretionary mandates towards a more active involvement in the markets," explains Nikk Low, senior investment counsellor at EFG Bank.

Asset allocation in Asia is very different from what Western approaches suggest it should be, with 20% more "speculative" money and the rest "safe assets" money, explains Gerard Clancy, executive director, wholesale distribution, Asia Pacific, at Threadneedle Investments. "So trying to get Asian clients to divide their assets along the lines of the Western mind-set of 60% in bond funds or balanced funds, and then 40% in equities, is challenging."

For many years, during which time Asian investors had limited investment choice, the primary way of protecting themselves from inflation was real estate, so this has become a default

Stefan Mueller
Credit Suisse

"[Discretionary solutions] need to be embedded in that whole advisory experience"

long-term investment solution, explains Alexis Calla, global head, investment advisory & strategy, group wealth management, at Standard Chartered Bank. "Investors would benefit from a long-term commitment to managed money," he says.

The goal, therefore, is trying to access the 80% in Asia which isn't yet allocated to investments, adds Clancy. "This is often on deposit with local banks."

However, many discretionary solutions offered in this region have a strong equity component. And given that recent experiences with equities have been disappointing, a lot of work is required to significantly replace real estate in favour of managed equity investments in clients' minds.

THE RIGHT POSITIONING

The approach that many private banks take to positioning discretionary solutions is part of the reason for the lack of take-up to date.

For example, says Stefan Mueller, head of advisory, products and sales for Credit Suisse's private banking business in Asia Pacific, there is a lot of mental accounting in the process, by suggesting to clients one type of offering, whether advisory or discretionary, depending on certain characteristics about them.

"Instead," he asks, "what if we say discretionary management is advice?" The only part of the process which actually then gets delegated is the execution side of the trade, he explains.

"This gives banks a new frame for tackling the issue of discretionary portfolio management," adds Mueller.

For the time being, most banks offer a discretionary solution with a relatively short list of instruments, with another process for their advisory offering.

"Banks should have one master list of instruments," says Mueller, "from which both the discretionary and advisory sides feed from."

Clients then feel more comfortable because they can see the same instruments and ideas.

Plus, post-trade, the bank has a consistent way and channel for communicating the execution details according

Gerard Clancy
Threadneedle Investments

> "Asset allocation in Asia is very different from what Western approaches suggest it should be"

to their preferences. "[It is thus the case that discretionary solutions] need to be embedded in that whole advisory experience," says Mueller.

Paul Stefansson, head of investment funds at UBS Wealth Management in Singapore, agrees that the positioning of discretionary mandates is key.

"It's important that clients understand they control the asset allocation decision," he explains. "And in the environment we are in now, where we have zero interest rates, where there is no risk-free asset any more, and where we've got a deleveraging world of deflation, clients are really looking for some kind of advice."

MAKING IT MORE RELEVANT

In general, adds Lee at UBP, to purpose-fit a typical Asian client into a certain profiled discretionary portfolio is difficult.

A more prudent way, he says, to customise an Asian client's portfolio would be to create a specialised discretionary mandate with an advisory allocation portion, so that it has an element of client-directed investment to it.

"I think that if bankers and advisers took the approach of talking to [clients] about the management of the overall portfolio, then there might also be more scope to discuss the merits of discretionary mandates," says Low at EFG Bank.

Clients then might come to understand a more effective way to maintain a portfolio that truly reflects the risk profile and hence returns expectation, he explains.

Another issue is the level of trust which is required for discretionary mandates, adds Edmund Gomes, head of active advisory, wealth management services, Singapore, at BSI Bank. "There is a question-mark over the general level of trust that clients generally have in their bankers," he explains.

"However, once this trust is in place, which takes time, it becomes more ealistic to have these sorts of conversations with clients about taking a discretionary approach."

Part of this might be overcome by advisers "selling" the individual portfolio or fund managers as part of conversations that advisers have with clients about discretionary portfolios.

"Clients like to meet the people who will be managing their money, and also they want them to be locally-based, especially if they are investing in Asian-focused funds, says Sen Sui, senior director and head of markets and investment solutions for Credit Agricole Private Banking in Asia.

Ultimately, it is a people business, says Richard Mak, managing director and head of advisory services for Pictet & Cie in Asia, so clients need to be comfortable with their understanding about how the portfolio works and that the manager is doing something to add value – including from a risk management perspective.

"Just following the benchmark is of no interest to clients," he adds. "Asian investors show greater interest on mandates targeting absolute returns."

So the discretionary mandate should also be cost-efficient and dynamic. Says Sui: "Clients want to see returns and they have specific investment or asset class objectives – so advisers need to service these and be flexible along the way."

With such mandates, the product and fee structures need to be quite transparent and straightforward, says Sui.

This approach is also preferable for advisers, too, to force them they have more transparent relationships with their clients.

OPTIMISM FOR MORE FOCUS ON FUNDS

Moz Afzal, global chief investment officer at EFG Asset Management, says he thinks discretionary management will pick up a substantial share of the overall investment wallet of clients going forward.

Although the typical impressions of HNW individuals in Asia are that they are aggressive investors, Afzal says he has seen that change over the last three or four years in line with volatile and uncertain markets.

"They are much more conscious about how they need to structure their investments and portfolios," he explains.

If planning is done properly, he says investors will then have the right allocations between fixed income, equities and other asset classes, and an open-architecture approach will lead to more money being put into funds to drive the discretionary trend.

Mutual fund penetration, as a percentage of household financial assets, is generally low across Asia at around 8% to 9% – certainly relative to the US, where it is above 20%, and Australia, where it is also quite high, says Danny Howell, head of wealth management for Towers Watson in Asia.

However, he says there are clearly many signs that this is changing. "One of the key drivers is the compounding effect of both rising affluence in combination with a shift of wealth from cash/deposits to other wealth management products as investors become more sophisticated," says Howell.

Paul Stefansson

UBS Wealth Management

"It's important that clients understand they control the asset allocation decision"

This will drive significant levels of growth in mutual funds and other wealth products over the medium to long term.

Says Stephen Grundlingh, co-chief executive officer, Templeton Asset Management, Singapore, and regional head, South-east Asia, Franklin Templeton Investments: "The take-up of mutual funds by private clients should continue to increase due to the high level of transparency, liquidity and the ease of transacting via these vehicles."

So, as investors become more familiar and comfortable with the concept of investing in open-ended funds, their engagement will increase, he explains.

The greater adoption of advice-based sales models from both the client, or "demand" side, and the distributor, or "supply" side – as well as a gradual encouragement of its introduction by regulators – should also fuel mutual fund growth in Asia, adds Howell.

Further, says Afzal, as investment professionals with experience in Europe and the US increasingly relocate to Asia, this expands the talent pool to drive a broader discretionary offering.

He says advisers should look to spend more time with clients in helping them to understand how financial markets work, and how to mix different asset classes and strategies to get diversification to achieve certain returns.

"Rather than being seen as 'gambling', investing must be regarded as proper planning of how assets are going to evolve," says Afzal. ■

Moz Afzal

EFG Asset Management

"Rather than being seen as 'gambling', investing must be regarded as proper planning of how assets are going to evolve"

HOW TO DRIVE MORE DISCRETIONARY MANDATES

Adam Tejpaul, head of investments at J.P. Morgan Private Bank in Asia, explains the importance of discretionary mandates for the region's wealthy, and looks at what it takes to encourage clients to put their money in someone else's hands.

What is the real potential for discretionary mandates in Asia?

Unlike many short-term investment options, discretionary portfolios are designed to deliver attractive risk-adjusted returns over the long term.

Apart from providing positive returns during the good years, these mandates also aim to contain the downside risks during volatile markets.

This can be achieved via a well-diversified portfolio, which provides access to a wide range of solutions.

So what does this type of portfolio look like?

It typically consists of 50 to 60 holdings, each accounting for less than 10% of the overall portfolio.

Such diversification across asset classes and regions is extremely difficult to replicate.

We believe a client's investment portfolio should have a discretionary portfolio as its long-term core holding, and complement it with various short-term investment solutions.

Why should this be relevant to Asian clients?

As many clients are successful business owners and corporate executives who often juggle between work, family, and travel, they simply do not have the time to make thoroughly-researched investment decisions themselves.

A professionally-managed portfolio, where investment specialists help make those decisions under various market conditions, is an attractive and viable solution.

> "A client's investment portfolio should have a discretionary portfolio as its long-term core holding."

Adam Tejpaul

J.P. Morgan Private Bank

> A portfolio should not be constrained to a small sub-set of selected managers or asset classes.

What will it take to get Asian investors to put their money in someone else's hands?

Based on our experience with our clients, we find that clients are generally more inclined to invest with a manager with the following criteria:

- A team of dedicated professionals to manage client's portfolio – for example, we have global teams of investment specialists, each with different expertise, responsible for different segments of the investment strategy and process. All our portfolio decisions are based on our best ideas from our strategy and solutions teams
- Portfolio customisation – being able to customise the portfolio asset allocation according to client's needs and conduct regular portfolio review, to determine the most appropriate asset allocation mix based on the client's changing lifestyle
- Proven long-term track record – for example, our longest portfolio in the US has 80 years of history, while Asia's oldest portfolio has 25 years of history
- Provide instant updates whenever a crisis occurs – during the European sovereign debt crisis, for instance, we maintained regular contact with our clients and provided regular updates on their exposures in Europe as well as the potential impact on their portfolio

So what does asset allocation mean today?

In today's fast-changing world, we believe that portfolio asset allocation should not be static but should be actively-managed with both strategic and tactical asset allocations.

Strategic allocation typically drives the majority of the portfolio's investment performance, while tactical allocations can then deliver additional potential return via tilts and vehicle selection.

In addition, a portfolio should not be constrained to a small sub-set of selected managers or asset classes, but should be truly unconstrained with the flexibility to access a broad range of solutions.

For instance, we will able to recommend portfolio allocation to selected alternative investments and structured products to achieve greater diversification and less volatility, thus creating multiple sources of return. ■

Co-published article

GAINING MORE BY LOSING LESS

Contrary to conventional wisdom, research shows that less-volatile stocks tend to beat the market over the long term, partly by losing less in downturns. An active approach that combines low volatility and fundamental quality can produce even stronger performance, say Kent Hargis and Chris Marx of AllianceBernstein.

After the serial market jolts of the past decade, investors prize stability as never before.

For many, this poses a dilemma: they want (and need) equity-like returns but not the performance swings and downside risk that come with equities.

This search for a better shock-resistant equity strategy has rekindled interest in a powerful yet long-unappreciated market anomaly – that less-volatile stocks tend to out-perform market indices over the long term.

Less-volatile stocks are inherently less exposed to market booms and busts. They won't soar as high in bull markets, but they generally won't fall as much in downturns. Thus, they have less to make back once the market recovers. As a result, these "steady eddies" typically compound more of their gains over a full market cycle.

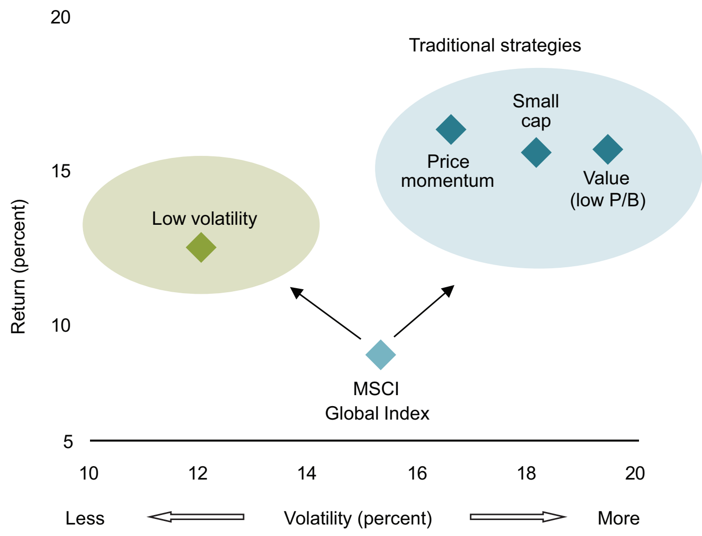
The historical out-performance of low-risk stocks defies a central tenet of finance theory, which states that risk and return go hand in hand: accept more volatility and you'll be paid with higher rewards over time. Yet academic research confirms that the low-volatility anomaly has been observable for much of the past century. It also spans asset classes and geographies.

We further found that actively targeting both low volatility and fundamental stability, and vetting names for near-term downside risks, produced stronger results than taking a passive low-volatility approach.

AN UNCORRELATED SOURCE OF EQUITY ALPHA

Because it behaves so differently from other active approaches, a low-volatility strategy offers strong diversifying benefits that can be used as

A risk anomaly, not a return anomaly



Data represent the top quintile as sorted by low two-year volatility, high price momentum, low price to book (value) and low capitalisation (small-cap); unhedged in USD, based on the Bernstein global large-cap universe of stocks from January 1973 to November 30, 2011.

Source: MSCI and AllianceBernstein

a source of uncorrelated alpha or for more efficient risk budgeting.

It complements other active strategies by filling an important – yet often overlooked – gap in traditional active equity allocations: stability.

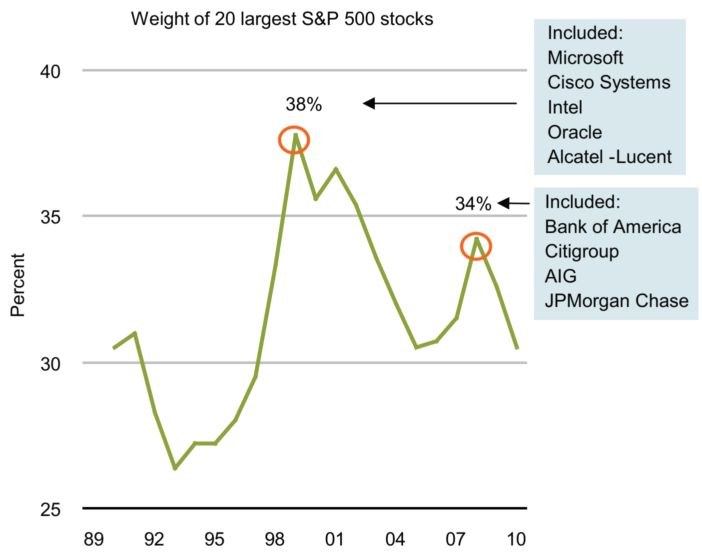
A key distinction between a low-volatility portfolio and its more traditional equity counterparts is one of duration, or the time it takes for the underlying assumptions to bear fruit.

Mean-reverting value strategies and many growth strategies, for example, are typically long duration, as they essentially work by exploiting mis-valuations which are based on the forecasts of future earnings.

Value investors are rewarded on evidence of a turnaround, while many growth investors are rewarded when higher expected growth materialises.

Long duration strategies tend to perform best when investors are confident about the future and are willing to give credit to cash-flows that may take longer to develop.

Avoids dangerous concentration during bubbles



Through December 31, 2010.
Capitalisation-weighted S&P 500.

Source: MSCI, S&P and AllianceBernstein

In contrast, a low-volatility strategy is short duration, working best when investors are pessimistic on the future.

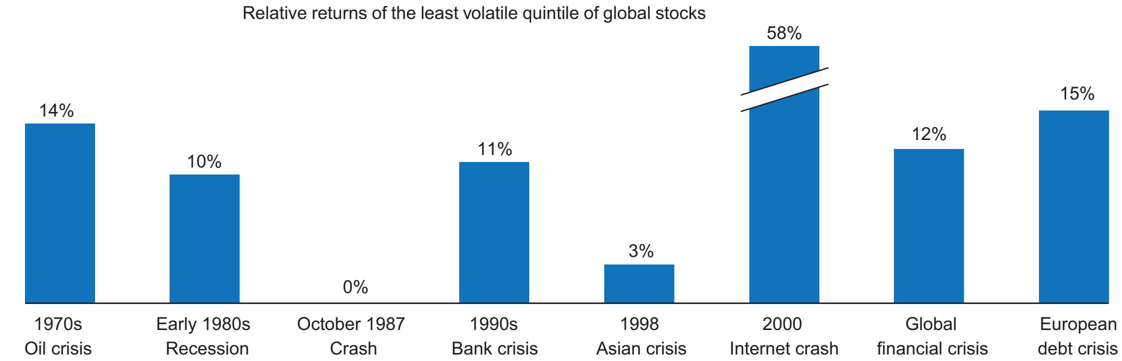
Exposures will tend to favour companies with perceived near-term pay-offs such as healthy and stable current profitability, high free cash-flows, low debt and shareholder-friendly capital allocation practices, as demonstrated by an above-average dividend payout or low net-equity issuance.

IMPROVING TRADITIONAL EQUITY ALLOCATIONS

Adding a low-volatility portfolio can benefit traditional equity allocations in two ways:

- **Reduce risk without sacrificing return potential:** in a traditional equity allocation diver-

Less volatile stocks provide a cushion in crises



	1970s Oil crisis	Early 1980s Recession	October 1987 Crash	1990s Bank crisis	1998 Asian crisis	2000 Internet crash	Global financial crisis	European debt crisis
MSCI World:	–40%	–17%	–20%	–24%	–12%	–46%	–46%	–4%
Low volatility:	–26	–6	–20	–13	–9	11	–33	11

Returns for capitalization-weighted MSCI World Index, in USD unhedged, and for lowest quintile based on two-year trailing volatility; numbers may not sum due to rounding. Crisis markets are March 1973–September 1974; April 1981–July 1982; September 1987–November 1987; January 1990–September 1990; July 1998–September 1998; April 2000–September 2002; July 2008–February 2009; and May 2010–September 2011. Not intended to portray the results of any AllianceBernstein product.

Source: MSCI and AllianceBernstein

sified by style, geography and market capitalisation, we found that replacing 20% of the equity portfolio with low-volatility stocks generated a higher Sharpe ratio than the traditional equity allocation, primarily by reducing the absolute risk and beta. As this allocation had a beta closer to one, its tracking error increased

- **Increase return potential without adding risk:** the addition of a low-volatility portfolio to an active equity portfolio can free up the risk budget for more aggressive allocations into higher-alpha / higher-risk investments. Allocating 15% of the equity portfolio to low-volatility stocks and 5% to emerging-markets stocks improved return and information ratio, with only a small increase in tracking error. Tracking error could have been kept constant by shifting a portion of the allocation from low volatility and emerging markets into passive.

A SMARTER WAY THAN PASSIVE

Investors seeking to escape the gut-wrenching market gyrations of the past decade have flocked to low-cost cap-weighted indexing strategies.

We think a low-volatility strategy is a more efficient way to hedge against significant market declines and also to access equity returns than cap-weighted benchmarks.

For instance, while cap-weighted passive strategies can reduce the relative risk associated with active management, they do nothing to curb absolute market (beta) risk.

At worst, they overexpose investors to high-risk stocks in market bubbles.

For example, at the height of the internet boom in the late 1990s, the largest 20 stocks by market cap accounted for more than one-third of the S&P 500, the bulk of which were hot stocks in technology, media and telecoms.

Similarly dangerous concentrations occurred with bank stocks in the years preceding the 2008 global market crash and with Japanese stocks in the MSCI World in the years before that market's collapse.

Low-volatility stocks will generally be far less concentrated in hot stocks as the bubble forms and, thus, suffer far less pain when the bubble bursts.

No-one can say for sure at the time when a market is in bubble territory or when a bubble will pop.

But a portfolio that methodically avoids high-risk stocks takes some of the guesswork out of the equation.

By replacing passive equities with a low-volatility portfolio, investors can also increase equity exposure without changing its risk profile.

In a hypothetical multi-asset allocation, shifting from a 40% bonds / 60% passive equity scheme to a 25% bonds / 75% low-volatility equity strategy generated significantly higher returns at similar levels of risk.

TAKING A LONGER-TERM VIEW

Investors must accept that a low-volatility portfolio will tend to lag when markets are buoyant, sometimes badly and for long stretches.

Notably, the least-volatile quintile of global stocks significantly trailed the market during the internet bubble in the late 1990s.

This reflected its significant underweight in popular technology stocks.

It also trailed in late 1970s, when it was underweight surging energy stocks amid the spike in oil prices.

Investors may be less appreciative of this strategy's loss-cushioning attributes when other strategies are delivering much bigger gains.

After all, there wasn't much interest in exploiting the low-volatility anomaly during the bull markets of the mid-1980s and late 1990s.

To fully benefit from this "gain more by losing less" approach, investors must have a long-term perspective and recognise its very different pattern of return.

Ultimately, while low volatility tends to lag in short-term rallies, it has actually outperformed in medium and long-term bull markets.

"Given the enduring nature of the behavioural biases and agency issues driving the outperformance of less-volatile stocks, we expect this anomaly to remain a highly-exploitable investment opportunity."

EXPLOITING THE ANOMALY

Given the enduring nature of the behavioural biases and agency issues driving the outperformance of less-volatile stocks, we expect this anomaly to remain a highly-exploitable investment opportunity.

Our analysis shows that a low-volatility strategy's risk-taming benefits and counter-cycle alpha delivery give it unique powers that can be used either as a source of uncorrelated equity alpha, or as part of the overall approach to risk management. We also found that combining low-volatility and high quality, and actively managing portfolio and company-specific risk, can produce better results than screening for low volatility. ■

AB ALLIANCEBERNSTEIN

The full version of this whitepaper "The Paradox of Low-Risk Stocks" is available for download at www.alliancebernstein.com.

Q&A

TOWARDS MORE RATIONAL PORTFOLIO CONSTRUCTION

Danny Howell, head of wealth management for Towers Watson in Asia, discusses the challenges for investors in being rational about how they create their portfolios, and explains some ways to try to overcome these.

Is it fair to say that many investors are not rational when it comes to constructing and managing their portfolios?

I think that is probably true in many cases. There is a lot of work being done in the area of behavioural finance, and how that impacts markets.

It has filled a gap in more rational and rigid economic theories in terms of explanations for the way markets behave in relation to price bubbles, crashes, and panics.

There's a number of areas where we see this in how investors construct and manage their portfolios.

We see many retail investors fear loss more than they covet gain – and that can influence their approach to investing.

For example, they might hold on to stocks for which they've experienced a price fall with the hope that the price will rise again – and they won't have to sell for a loss. Or they might sell stocks that start to outperform too soon.

What other behavioural biases do you see?

A common area is overconfidence – and in particular the tendency to mistake luck for skill in investment outcomes.

It's human nature for investors to attribute success to good decision-making and having particular market insights rather than for them to accept that it may well have been the result of luck.

Yet this influences future decisions and approaches, leading investors to see patterns and order, causes and effects, where they do not often exist to underpin and explain past successful investment choices and guide future decisions.

Does this create opportunities for other, perhaps more rational, investors?

One driver of the level of "alpha" opportunities in a market is the proportion of retail investment, given that, as a general rule, retail investors are less well-informed and less sophisticated in their investment decisions.

That creates increased opportunities for professional managers to outperform the market.

What are some of the services and tools that can be used to help clients create more rational portfolios?

In broad terms, the best services or tools that can help establish a "rationally constructed" portfolio is the access

Danny Howell

Towers Watson

to credible and accurate investment information that can aid decision-making.

This can take many forms – for example, access to independent research and analysis papers or websites.

How does this play out in practice?

For the general investor, getting access to an experienced and well-qualified adviser is a key step.

One of the most important processes is then working through a risk-assessment process with the adviser so that the client's risk appetite is understood.

The better-equipped advisers also have a thorough knowledge of a broad product range, and to help construct a portfolio, should be able to model different types of possible portfolios for their clients and demonstrate how those portfolios would perform under different market scenarios.

Many advisers also have some standard but well-constructed "model" portfolios that are designed to meet the less-sophisticated client's needs.

Moving from a frequent trading mentality to a longer-term investment horizon also helps avoid the trap of trying to beat the market with short-term tactical trading.

That approach can perhaps flow from the issue of overconfidence, as a result possibly of recent market successes.

It's very difficult to outperform the market consistently over a sustained period of time using an approach based around a high frequency of tactical trading. ■

> "The better-equipped advisers have a thorough knowledge of a broad product range, and to help construct a portfolio, should be able to model different types of possible portfolios for their clients and demonstrate how those portfolios would perform under different market scenarios."

Feature article

A PARTNERSHIP APPROACH TO PRODUCT STRATEGY

Private banks are increasingly looking for bespoke solutions for the product shelf, not just building blocks. The outcome is a narrower, more out-oriented fund offering, either absolute return or some form of target income, and more selective and strategic partnerships with product providers.

As private banks look to differen-tiate their product offerings, the way they are approaching the selection and acceptance of funds onto their platforms is evolving.

By making more bespoke solutions available to their clients, and ones which are more tailored to the realities of the market environment, the bank can then offer their clients more exclu-

> A move by private banks towards strategic partnerships and away from the fund supermarket approach is necessary simply to overcome the challenge of being able to advise clients on the ever-greater array of funds available.

sivity. At the same time, they can them meet a specific investment objective.

This also makes sense given the multi-banking approach that most Asian investors take. The banks know that after their advisers discuss a more generic product or idea with a client, the likelihood is that the client then "shops" that around to other private banks in search of a better price.

Product providers which are focused on taking a more collaborative approach to product development, therefore, are quickly finding favour with the banks, and are carving out a new role as more of a strategic partner than ever before.

SHORTENING THE LIST

A move by private banks towards strategic partnerships and away from the fund supermarket approach is necessary simply to overcome the challenge of being able to advise clients on the ever-greater array of funds which are available.

For relationship managers (RMs), that means they don't need to look through 15 to 20 funds within a single asset class to be able to recommend a certain fund to a client.

In line with this, the banks are looking for a shorter list of names that reflects their conviction and also macro-economic outlook.

In turn, investment managers want to make sure their products are clearly differentiated to secure a place on that shorter list.

This is a highly-competitive environment, with over 100 firms targeting the same pool of clients, says Lennie Lim, managing director and regional head of Legg Mason in Asia. "Our aim, therefore, is to focus on strategic partnerships, which to me means focusing on what Legg Mason does best in terms of what we offer the distribution partners we work with."

By being on a short-list, the nature of the conversation changes and it becomes more of a win-win for both parties, making it possible to create a strategic plan for working together going forward.

"The market has moved from being open-architecture to taking more of a guided architecture approach," says Lionel Florentin, head of distribution for Amundi in South-east Asia.

This has an impact on product providers, he explains, as they then get selected on a preferred-partner basis by private banks.

"While this gives us the right to be positioned correctly within the bank's platform," says Florentin, "we also have a duty to ensure we support the private bank during the whole process – including the product to fulfill the market need and supporting the bankers as part of the sales process."

Lim at Legg Mason agrees that there is an ever-greater need by providers to support those wealth managers who are selling the firm's products. "[This is] not only to help them better understand the products themselves, but also to educate them on the context of how and where they fit into portfolios, based on the various economic and investment environments."

Lennie Lim
Legg Mason

"This is a highly-competitive environment, with over 100 firms targeting the same pool of clients. Our aim, therefore, is to focus on strategic partnerships"

"The banks are looking for a shorter list of names that reflects their conviction."

Tony Edwards

Robeco

"Sustainability and ESG analysis is only going to be a more important element in an investment decision"

MORE CONSISTENCY

For product providers, however, delivering the right offering to forge and then maintain these strategic relationships requires them to be consistent in terms of their product development. Only then can they cater most effectively to the industry.

The industry also has a responsibility to work better together to cater to investor appetite.

"Asset managers need to collectively build out a more efficient product proposition for Asian investors," says one senior executive at a local fund management company, who preferred to remain anonymous.

"Historically, products have been designed for European and US investors, given that the majority of fund management firms in Asia originate from those parts of the world."

"Rather than having thousands of products on offer on their platform, private banks now want more focused and specific funds and products which are aligned with their own macro and economic outlooks and themes," adds Florentin at Amundi.

Having a clear point of differentiation is increasingly valuable against the backdrop of these developments. This is important, as an example, for Tony Edwards, chief executive officer of Robeco in Asia Pacific. "Specifically, we believe that environmental, social, governance (ESG) and general sustainable themes are material, which is where there are market-development growth opportunities in Asia."

Particularly given the nature of the world's environmental uncertainty and more fragile recent governance record, Edwards predicts that sustainability and ESG analysis is only going to be a more important element in an investment decision.

Robeco also focuses in the low-volatility management space, which means it provides portfolios which are less than market risk but provide better-than-market returns.

Being more streamlined and targeted can also help the banks control the sales process in terms of how the products are being sold by their bankers to their clients, says Florentin.

Adds Edwards: "One of the potential outcomes of the need of most private banks for profitability is the drive to get bankers to use focus funds and benefit from scale, for example by using the research already done rather than customised research."

There is also a need for more education for clients about the real meaning of "investing" and to move away from the short-term, trading approach of many Asian-based investors. ■

> "Being more streamlined and targeted can also help the banks control the sales process in terms of how the products are being sold by their bankers to their clients."

Co-published article

EUROPEAN EQUITIES: 10 REASONS TO INVEST

Far from being a time to avoid Europe, the headlines revolving around fiscal issues have created an investment opportunity for European equities, says Henderson Global Investors.

There are 10 key reasons why we believe investors should be considering investing in Europe.

1. COMPANIES ARE IN STRONG FINANCIAL HEALTH

European companies have rarely been in such good corporate health. Having spent the past few years improving their balance sheets, their finances put to shame most governments.

Cash on corporate balance sheets is near record levels, whilst borrowing (net debt) has steadily reduced. Such strong balance sheets mean that companies are able to finance growth internally, creating less pressure for rights issues. It also means there is a significant capital cushion should the economic environment deteriorate.

2. VALUATIONS AT 30-YEAR LOW

Earnings at European companies have been robust, although the pace of earnings growth has moderated given the macro-economic background. Equity prices have failed to reflect the higher earnings and strong cash flow.

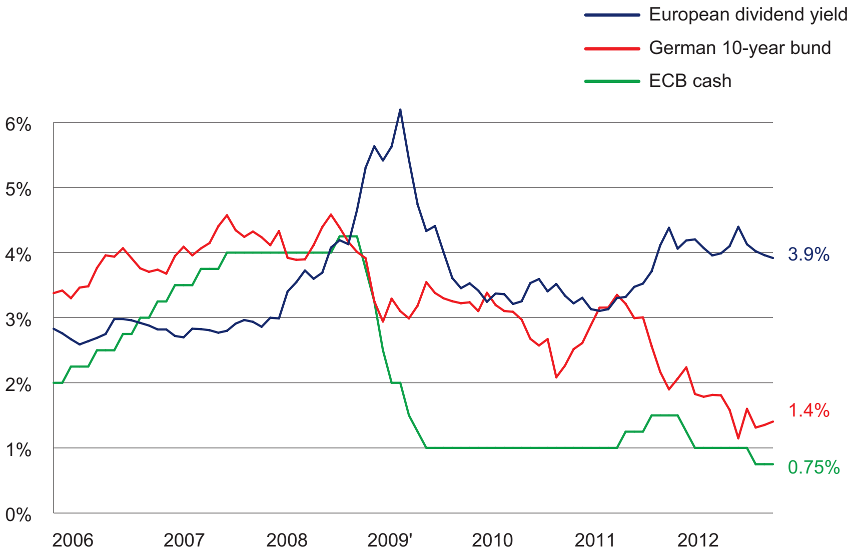
European equities are trading well below their long-term historical average in terms of price-to-earnings (P/E) multiples. On a 12-month forward P/E multiple, it is the cheapest of the major developed equity regions, offering the potential for a re-rating.

3. HIGHER INCOME FROM DIVIDENDS THAN FROM GOVERNMENT BONDS

European equities also appear attractive in terms of income and are currently in the rare position of offering investors a higher income than the corresponding government debt.

Unlike fixed bond payments, which remain static, company dividends offer the potential for growth as earnings improve. In the year to 30 September 2012, 65% of companies making up the MSCI Europe Index increased

European equities yield more than bonds and cash



Source: Thomson Reuters Datastream. MSCI Europe Dividend Yield, 10-year German Government bund yield, European Central Bank short-term repo rate at 30 September 2012.

their dividend, according to Thomson Reuters Datastream.

4. GLOBAL EXPOSURE

European companies are proving particularly successful in acting as a gateway to the world.

Famous names such as Nestlé, the Swiss food group, and car makers such as BMW have a global footprint, with overseas operations that dwarf their domestic business. Many of these companies have successfully increased their global exposure over the past five years and are still expanding outside their domestic markets.

European companies are among the principal beneficiaries of growing wealth in emerging markets, as European luxury goods and engineering products cater to an expanding global middle class and infrastructure projects respectively.

5. DIVERSITY WITHIN SECTORS

With an entire continent to choose from, Europe offers considerable investment choice. The MSCI Europe Index alone has almost 450 constituents, with a broad spread across the different sectors.

Thousands more companies can be included by moving down the market capitalisation scale. The MSCI Europe Index shows that many of these Europe-headquartered companies are household names and world leaders in their fields.

6. M&A ACTIVITY COULD PROPEL PRICES HIGHER

In recent years, merger and acquisition (M&A) activity has been muted as companies have preferred to concentrate on strengthening their balance sheets. With this process now mature, chief executives are becoming increasingly comfortable about the financial state of their businesses and many companies have amassed considerable fire-power for capital expenditure or M&A activity.

As a result companies are scouting opportunities to expand market share or consolidate rivals and the chart opposite suggests there could be considerable pent-up demand. Key M&A activity announced this year includes:

- Glencore/Xstrata (commodities)
- GDF Suez/International Power (utilities)
- DS Smith/SCA (paper)
- UPS/TNT Express (logistics)
- ABB/T&B (engineering)

7. EUROPEAN PROPERTY EQUITIES: STABLE INCOME, ATTRACTIVE DIVIDEND YIELD

Property as a "real asset" offers protection against inflation, with rents tending to increase as economic growth and inflation increases.

Investors considering Europe today may be concerned about the medium-term impact of central banks' recent money printing initiatives.

This however, has fuelled investors' interest towards real assets.

Against this backdrop property as an asset class should benefit.

Quoted property companies tend to have large corporate tenants with long-term leases, thus generating a reliable "bond like" income stream.

The UK property market represents approximately 40% of the European property index and is as such the single-largest market.

Current dividend yield for the pan-European property sector is 4.6%.

8. EUROPEAN CENTRAL BANK LARGESSE

If the European Central Bank's (ECB's) longer-term refinancing operations (LTROs) were for the region's banks, it could be argued that its much anticipated euro debt plan is for the benefit of everyone, providing a worst-case scenario insurance plan.

In early September, ECB President Mario Draghi revealed that the central bank would provide an Outright Monetary Transactions (OMTs) programme to address "severe distortions" in government bond markets.

By purchasing bonds with a maturity between one and three years, without there being a limit on the size of the purchases (but with conditions attached), Draghi stated this would provide a "fully effective backstop to avoid destructive scenarios" and that the euro was "irreversible".

Conducted in co-ordination with the existing European Financial Stability Facility (EFSF) and the permanent European Stability Mechanism (ESM), OMT buys further time for European leaders to address the root cause of the region's sovereign debt crisis and should help restore a level of confidence over the medium term.

9. EUROZONE REAL MONEY REVIVAL CONFIRMS IMPROVING OUTLOOK

ECB President Draghi appears to be winning the battle to be able to stabilise the Eurozone economy and financial markets.

This is backed by the first monetarist forecasting rule for the economy, which is that real (ie. inflation-adjusted) money supply leads demand / output by about six months.

> European companies are proving particularly successful in acting as a gateway to the world.

Narrow money M1, comprising physical cash and overnight deposits, surged by a further 1.7% in August, for a three-month gain of 3.4% or 14.1% annualised.

Six-month real M1 expansion (ie. deflated by consumer prices, seasonally adjusted) rose to 3.2%, the highest since February 2010 and a level historically consistent with solid subsequent economic growth.

Real M1 accelerates before economic upswings as households and firms shift money holdings into more liquid form ahead of a rise in spending.

M1 is reviving in response to President Draghi's campaign to reverse Bundesbank-inspired monetary policy tightening in 2010 to 11.

The real money (M1 deposits) pick-up since the summer across the Eurozone has been led by core countries, especially Germany, with signs that weakness in peripheral areas of the region is abating.

A recovery in core activity should restore Eurozone-wide economic expansion in early 2013. Elsewhere, the periphery is likely to remain stagnant at best but recessionary pressures should ease.

10. BAD MACRO-ECONOMIC NEWS IS OFTEN THE HARBINGER OF GREAT OPPORTUNITY

Bad macro-economic news often leads to pricing anomalies in the market, creating some great stock-picking opportunities. By focusing too heavily on the macro-economic and political news that is driving the headlines, investors could miss out on opportunities sourced by highly-skilled fund managers at a company level.

Europe's liquid, well-regulated markets provide access to all major sectors within the world's largest single market. What is more, sentiment is swiftly changing. For example, according to the Bank of America September 2012 Global Fund Manager Survey, the impending US fiscal cliff is seen as a higher risk than the European sovereign debt crisis. ■

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