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Link to Content Summary page
Link to Photos
Link to Video Highlights

Engaging the Client: The Best Products & Better Outcomes

The second panel discussion of the Hubbis Investment Solutions Forum stimulated a lively debate with a wide diversity of opinions. Are boutique wealth managers more client-centric than the global players? Is passive truly better than active, or is it all down to value, not cost? Will robo-advisory prevail over the human connection?

These were the topics discussed:

- *How are clients engaging managed investments in 2018? Trends and developments?*
- *How do we select the best funds and products?*
- *How can we optimise the clients existing portfolios?*
- *What are the benefits of a managed account platform?*
- *Is it possible to deliver digital advice? Whats the role of technology?*
- *Is there a role for robo / AI - to improve the process and get a better outcome?*
- *What are the clients expectations today?*
- *How do we personalise the approach to each client?*
- *Does a multi-manager approach using the best-of-breed managers help deliver consistent performance over time, particularly during volatile periods?*
- *Do manager allocations within a portfolio need to be actively managed to adapt to changing market conditions?*

PANEL SPEAKERS

- **Belle Liang, Head of Investment Advisory, Investment Services Division, Hang Seng Private Banking**
- **Kevin Liem, Chief Investment Officer, CBH Asia**
- **Matthew Chan, Vice President, Business Development and Client Relationship Mercer**
- **Arjan de Boer, Head of Markets, Investments & Structuring, Asia Indosuez Wealth Management**
- **Tariq Dennison, Investment Advisor, Retirement Portfolios GFM Asset Management**

BELLE LIANG
Hang Seng Private Banking

TARIQ DENNISON
GFM Asset Management

MATTHEW CHAN
Mercer

EXECUTIVE SUMMARY

Private banks and wealth managers in Asia spend a lot of time and energy working out the optimal approach to engaging clients. It is no longer only about the best ideas and the best products, it is also about gently coaxing the client base towards the advisory model, as well as ensuring that the delivery and communication methodologies are state-of-the-art. A panel of experts pondered these themes at the Hubbis Investment Solutions Forum.

The discussion ranged over a host of topics, from the efficacy of boutique wealth managers compared with the global private banks, the migration towards discretionary advice mandates, to the value of active or passive investment strategies, and the growing prevalence of robo-advisory, especially for the mass affluent market and the regulatory hurdles that must be overcome to function efficiently and compliantly. There was no widespread consensus on any of these issues other than on the key point that the industry must invest in both technology and people in order to survive and prosper.

"AS THE REPRESENTATIVE of a boutique wealth manager I enjoy the freedom of being outside the larger, more bureaucratic organisations that I have worked for in the past," said one panellist, opening the discussion. "One area of focus for us is simply the behavioural side of client management - stopping them from selling low and buying high is perhaps 80% of the value we bring to the table. Active versus passive makes little difference, but the most important is good behaviour or judgement."

He expounded on the types of client. " Step one is for someone who has accumulated a lot of cash but has hardly invested. Step two, for any client, is asset allocation, including, if they want, some of the most speculative investments, but a good balance is vital. A calm approach is a massive advantage."

A private banker from reported that the major global banks have less ability today to offer tailored solutions to clients, due to the regulatory tightening in recent years. "You see the major private banks hiring aggressively, and to my mind, that is because the existing bankers are producing less, so they need more people for their growth, whereas we as a smaller bank can offer greater flexibility and a more detailed strategic planning."

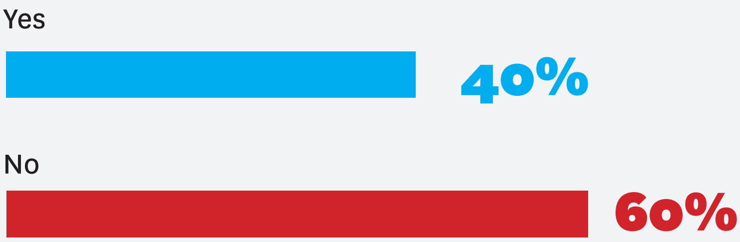
ARJAN DE BOER
Indosuez Wealth Management

Global and boutique at the same time

Another banker from a major bank explained that although the bank manages about USD125 billion globally the figure for the Asia region is about USD18 billion. "We can behave like a boutique bank within a global bank, which offers a very personal connection to the clients," he explained. "Moreover, the handholding approach works well out here and it seems a good time for example for managed solutions for clients. Additionally, team members have flexibility, they are not squeezed into certain areas, or markets, or regions."

The same banker added more detail on the bank's drive towards managed or delegated solutions. "The markets have become much more volatile,"

DO YOU SEE ANY EVIDENCE FROM YOUR CLIENTS THAT THEY ARE MORE INTERESTED IN A DISCRETIONARY CONVERSATION?



Source: Investment Solutions Forum 2018 - Hong Kong he reported. "Having professionals oversee your portfolio gives considerable peace of mind."

The representative of a mid-sized Asian bank highlighted the personal approach to the client base. "Aside from continuous dialogue, we also conduct extensive due diligence in the process and closer relationships with our product partners and product providers and even our in-house development, all this is crucial."

Expanding on this comment, the banker explained that the bank has put into place in-house research to understand all the funds and strategy, to connect with the fund managers, while externally the bank uses third party help such as Morningstar or Lipper to help with the selection process.

Are active strategies worth the money?

"HEDGE FUNDS HAVE SOMETIMES BEEN DESCRIBED AS A COMPENSATION STRUCTURE DISGUISED AS AN ASSET CLASS."

"We are finding that many of the mutual funds and other active funds are essentially just wrappers to extract fees," another expert commented."Hedge funds have sometimes been described as a compensation structure disguised as an asset class."

A counter argument on hedge funds came from another guest, who said that they have some of the smartest people and while they often print money for the founders or principals they are also growing their assets again, which stand at an estimated USD3.2 trillion today.

"Yes, I do not disagree said the banker who made the original comment, "there will always ben people, us included, who want part of our portfolio in concentrated bets with smart guys looking at it, but my point is that the packaging is being seen through in those and other active strategies and fees will come down, and the friction with it."

Value, not cost, should be the benchmark

At one extreme, the ETFs represent the lowest entry cost beta and at the other extreme, the hedge funds and perhaps private equity offer the highest costs of entry and exit. "The key, however," opined one expert, "is not the cost but return, you need to assess all this on value for money."

"Another attendee noted that each investment objective has a different risk factor attached, so the portfolio should be viewed as elements that make up a whole. "Investing for retirement, or education, or healthcare or investing for greater wealth on a large pot these are all different with varying risk appetites attached," he explained. "In wealth management, we often talk about creating a portfolio of assets but sometimes we are not thinking of the portfolio needs, of the liabilities those assets are to fund."

The discussion turned to robo-advisory. "I am highly optimistic that this and other new technologies will take away a lot of the boring work many of us face every day," said one guest. "I don't imagine many people in this room get really excited about just putting together a five-ETF allocation for stated needs for a modest-sized account, and then doing it over and over again. I think tech can reduce the friction that exists reducing movement from cash to investments. For example, I could have my earnings automatically going into a robo-invested account and spend directly from there, it can function as a normal bank account, but it is efficient and produces returns."

Robos taking over? Yes, but only the simpler tasks...as yet

In terms of the state of development, he noted that the robos have not yet acquired human capabilities, but that robos will gradually also take over many of the tasks such as reminder messaging to phones, update emails and so forth. "And do not underestimate the power of these algorithms," he remarked. "They are becoming far more sophisticated and the pace of advance is astonishing."

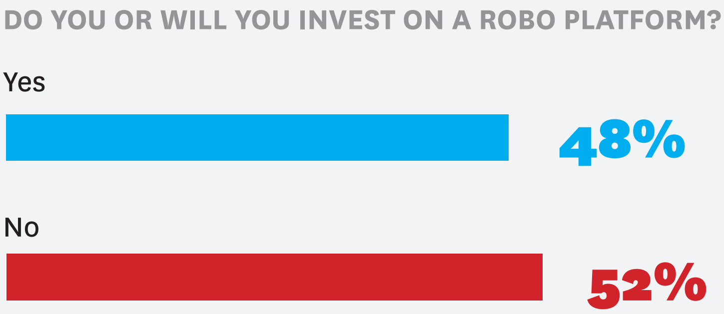
Digital delivery, yes, digital advice, no

Another perspective came from a senior banker who stated, "we can deliver advice digitally, but we cannot deliver digital advice, there must be a human idea behind it." He added that as a traditional wealth manager, the bank firmly believes that a core reason for its success is the human intellect and connection being directed to the clients. "Obviously, that is a very expensive model, so more appropriate to HNWIs, whereas for the retail market I can certainly see more robo-advisory emerging. However, in terms of the regulatory aspects, how does one fulfil an audit based on the investment rationale behind the algorithm? That remains to be solved."

"This can be managed," argued another panel member, "and in fact, I would be more worried about human advisers and the regulatory demands, as they are unlikely to be able to record or log every single step, every conversation, whereas the digital route allows for a digital audit trail. I personally think that robo technology will make even the discretionary portfolio management models work that much better."

"We all have incentives to invest in robo-advisory services," added another expert. "We, for example, have far more clients than we can really serve if they begin investing more through us, so this is a great tool for us. Providing a simple solution and simple product for our clients to plan their financial lives is strategically very valuable for us. For the broader mass-affluent market it moves wealth management into a far more acceptable realm." ■

KEVIN LIEM
CBH Asia



Source: Investment Solutions Forum 2018 - Hong Kong