Innovative, Interesting and Relevant Investment Solutions for Asia's HNWIs

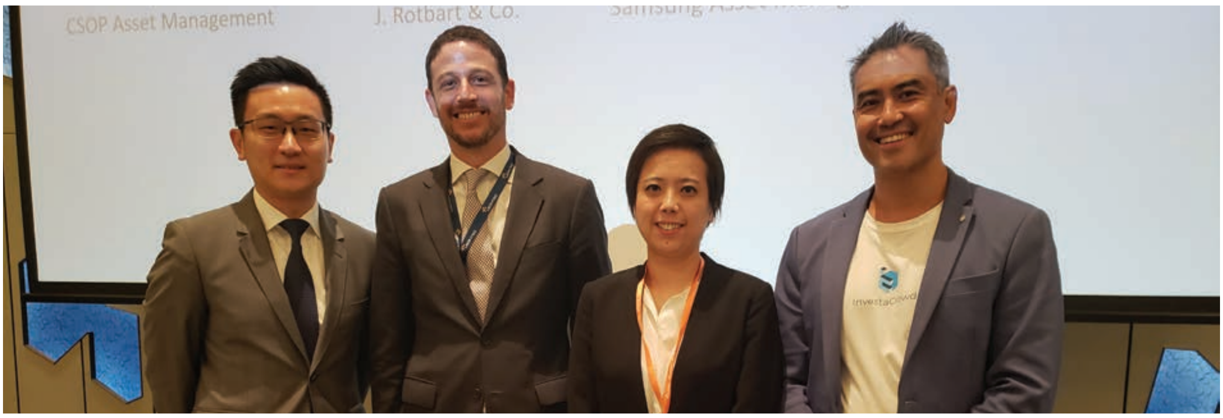
A panel of experts at the Hubbis Asian Wealth Management Forum considered several key asset classes, strategies and technologies that are already impacting the Asian wealth management markets, or that soon will, from the digitisation of illiquid assets to the broadening universe of ETF strategies, and the growth of physical gold investments.

These were the topics discussed:

- *What are digital securities and what relevance do they have to financial assets?*
- *How do investors benefit from investing in digital securities?*
- *Is gold an interesting asset class today? What role does it play in a client portfolio?*
- *Should investors buy physical or paper gold?*
- *What cash and money market alternatives exist today?*
- *The outlook for China*
- *What developments have we seen for ETFs and passive funds in Asia?*
- *What are the thematic investment opportunities that resonate with clients today?*

PANEL SPEAKERS

- **Tony Wong**, Head of Intermediary Sales, CSOP Asset Management
- **Joshua Rotbart**, Managing Partner, J. Rotbart & Co.
- **Joanne Siu**, ETF Sales Director, Samsung Asset Management
- **Julian Kwan**, Chief Executive Officer, InvestaCrowd



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THE KEY TAKEAWAYS

Distributed ledgers to make illiquid assets more liquid

A major problem for growth markets such as private equity, backed by whatever assets are preferred, whether real estate or companies, is that such a long-term investment is illiquid. But one expert offered a solution to the problem in the form of digital securities enabled by blockchain technology for the shareholding structures for private equity and real estate investments, which can thereby turn illiquid holdings into easily tradeable assets.

The future, tomorrow

But the concept is not to stop at only the digitisation of private assets, the technology should, the expert advised, be applied to all public securities in the future. In short, they argued that this is the future of all issuances, whether stocks or bonds or private equity or venture capital, or whatever the underlying assets or structure.

Gold's many appeals

Gold dropped less than 2% in 2018 when some markets fell by up to 20% and well-known cryptocurrencies by 75%, or sometimes more. But physical gold is outside the global financial system, it is non-correlated and therefore a solid diversifier for portfolios, it is liquid and easily traded.

The ETF market expands

The universe of ETFs in Hong Kong, especially those offering access to the Chinese markets, is expanding rapidly, offering foreign investors the opportunity to buy into the mainland "A" share market, or dedicated strategies such as small- to mid-caps. Some ETFs are also offering a dedicated play on the development of 5G in China, housing companies that are taking the lead for the country's innovative 5G technology, such as Baidu, Alibaba and Tencent, which represent the largest three holdings in one fund. Another ETF offers a play on the infrastructure side of 5G.

New innovations in ETFs

The development of money-market ETFs and inverse ETFs now offer investors the means to access institutional style money-market investments in Hong Kong and US dollars out of Hong Kong, as well as a means to hedge the Hang Sengi Index through an inverse ETF on the HIS. These new opportunities are being well received by investors of all types.

Hold real gold, not ETFs

An expert advised that gold-backed ETFs offer investors easy access to speculative trading, but for true diversification and protection, bullion is the answer. He recommended that investors with a well-structured portfolio should hold between 3% and 10% of their portfolios in bullion.

JOANNE SIU
Samsung Asset Management

A SIGNIFICANT PROBLEM FOR GROWTH MARKETS such as private equity, backed by whatever assets are preferred, whether real estate or companies, is that such a long-term investment is illiquid. But one expert offered a solution to the conundrum.

Blockchain comes to private equity

"We offer an investment platform in Singapore that has for the past two years been investing in the latest technologies to develop blockchain technology for the shareholding structures for private equity and real estate investments," he reported. "We focus on advising on and issuing digital securities, which are simply a digital representation of a security or an asset. Our mantra is email is better than paper, a digital share is better than a paper share. There is more flexibility, there are more benefits, new investment products and enhanced liquidity for liquid assets if you own a digital security that represents exactly the same asset as a traditional security."

He expanded on what he explained is a topic of great relevance to HNWIs in Asia, namely access to private equity, and real estate private equity. "The problem," he commented, "is bankers and the wealth managers typically focus only on the liquid assets, so right now a big focus is to achieve a digital representation of the underlying private equity shares that can then be more liquid and more transparent. The biggest downside of private equity is illiquidity, so investors tend to be stuck for seven

JULIAN KWAN
InvestaCrowd

to 10 years but typically they are trying to return 15% to 20% IRR. If you can marry the liquidity elements or some of the best parts of public liquidity and stocks with private equity, then we have a whole new world of products. It is fascinating."

The future, now

He closed his comments with a statement that what his firm is working on right now is not a trend. "It is the future of all issuances, whether stocks or bonds or private equity or venture capital or whatever the underlying assets or structure."

Another expert looked at cryptocurrencies and their relationship to gold. "Bitcoin, for example, works as a currency," he said, "as it allows you to conduct payments away from the banking system, a bit like gold, but we have learned in the past year or two that it is no true store of value. Gold went down 1.7% in 2018, financial markets anywhere up to 20% and cryptocurrencies lost about 75%."

"BITCOIN, FOR EXAMPLE, WORKS AS A CURRENCY," HE SAID, "AS IT ALLOWS YOU TO CONDUCT PAYMENTS AWAY FROM THE BANKING SYSTEM, A BIT LIKE GOLD, BUT WE HAVE LEARNED IN THE PAST YEAR OR TWO THAT IT IS NO TRUE STORE OF VALUE. GOLD WENT DOWN 1.7% IN 2018, FINANCIAL MARKETS ANYWHERE UP TO 20% AND CRYPTOCURRENCIES LOST ABOUT 75%."

Democratising gold amongst Asia's wealthy

He went on to explain that his firm had entered a deal with a private bank in the Philippines to promote physical gold to the growing numbers of HNWIs and ultra-wealthy investors there. For regulatory reasons, he reported, the banks cannot do it themselves onshore, so the firm has an arrangement with the bank to access their clients and a profit-sharing arrangement that he explained is working well.

"Physical gold been around for 3000 years," he noted, "but it is new to many of those investors to buy it as a product, and they then keep it offshore because gold is heavily regulated in the Philippines, as it is in China. It means a lot of education for the bankers and their clients, but it works well for us to meet their clients and well for the bank as an innovative product that nobody else is offering there. The clients want security, they want to manage volatility, uncertainty, they want risk management. The bank understands that they need to bring some solutions for the clients."

TONY WONG
CSOP Asset Management

The expanding universe of ETFs in Asia

An expert turned the discussion to the ETF market, referring to Hong Kong listed ETFs. "We have six ETFs listed there," they reported, "and our message is we believe they are ideal products as a satellite for your asset allocation objectives."

One of the most exciting innovations is an ETF that tracks the development of 5G in China, housing companies that are taking the lead for the country's innovative 5G technology, such as Baidu, Alibaba and Tencent, which represent the largest three holdings in the fund.

Another expert promoting ETFs through Hong Kong remarked that a core mission is to direct more foreign investors into China. "It is a complex market," he said, "but we have 17 ETFs listed in Hong Kong Stock Exchange across various asset classes, including equities, fixed income, and representing some USD50 billion of funds, and to put that in context Singapore itself has roughly that same amount in total. Right now, we are therefore representing the largest grouping of China equities ETFs in the world."

China – play two sides

He went on to explain that currently the firm is neither overly optimistic, nor negative on China. "If people are worried about trade wars and their impact, we see that China is adaptable in terms of its fiscal approach towards rate cuts, and there are also positive tax reforms," he reported.

All of which should help china stave off the worst impact of any protracted or heightened trade conflicts. "Don't be overly bearish on China, therefore," he advised, "but on the other hand keep cautious over risk."

"At the end of last year," he added, "we made a call to go long China 'A' shares and small- to mid-cap Chinese stocks, and short the HSI market. Then right at the beginning of Q2 this year, we said investors should be looking at moving their assets to more safety, so bonds, fixed income, money markets and also using the inverse ETF to hedge against their core portfolios."

New ideas well received

He explained that the new money market ETFs have been popular, allowing retail and HNW investors access to corporate deposits on an overnight basis.

"This is a concept brought in from the US and Europe where it has been very successful," he said. "Investors can easily trade in and out at any time the market is open. And the inverse ETF is immensely popular, with a roughly HKD2 billion inflow this year and total AUM to date of HKD4.6 billion. We are soon to launch a two times inverse on the HSI market, so investors can effectively hedge against the HSI."

A guest explained that ETF fees are low, and in Hong Kong there is no stamp duty. Moreover, they noted that ETFs are transparent and easily tradeable. "In recent years," said another expert, "many more private banks and wealth managers, especially the DPM portfolio managers, are keen on a greater variety of ETF strategies, including the newer ideas such as inverse funds that offer alternatives to clients who cannot for whatever reasons access the futures and option markets."

JOSHUA ROTBART
J. Rotbart & Co.

With gold, stick to a hold

The discussion returned to gold, with an expert highlighting the difference between physical and paper gold. "Gold protects against unpredictability, volatility, it is non-correlated, it is outside the financial system and very valuable for risk management in a broader portfolio, which is why we recommend 3% to 10% allocated to gold. But in our view, it must be real gold, as ETFs are not good enough. Why? Because they are not fully backed by physical gold. Second, they are financial product, so redemption and settlement can be slow, especially in times of stress."

But gold is highly liquid, it can be sold quickly and settled very fast. "A client gives us the instruction to sell at 10am one day and by 4pm they have the money in their account. Additionally, gold is gold, it is not a promise to be paid in the future, it exists, you can touch it. ETFs are useful for trading or speculating, of course, but real gold offers far better protection." ■