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

Products and Strategies for Asia's HNWIs in Market Volatility

A panel of Asia-based investment experts closed out the Hubbis Independent Wealth Management Forum by highlighting the quite dramatically different equity and bond market conditions that appear to have set in for the foreseeable future. If there was a single overriding message from all the participants, it was that mainstream financial markets are heading back towards normalisation. That means there will be higher risk, returns will be more elusive and therefore that smart investment strategies are essential.

These were the topics discussed:

- *What funds / investment products have you got that are specifically relevant to this IAM audience?*
- *Whats the role of structured products at times like this?*
- *How do clients buy and store physical gold? What's the importance of this for a typical client?*
- *Private vs Public - whats best?*
- *What strategies will enable Asian investors get higher returns, whilst been mindful of potential market challenges today?*
- *Global equity markets have seen a strong run. Does it still have legs? Or are we reaching a terminal stage?*
- *Where do you now turn to drive long-term returns for a portfolio?*
- *How are you helping your clients access interesting and unique investment solutions - for example in the private debt and private equity space?*
- *How do you help clients access these opportunities and how do you package these solutions?*
- *Do you buy private assets and real estate - how important is this? How do you access these opportunities?*

PANEL SPEAKERS

- **Dr Harold Kim, Founder and CEO, Neo Risk Investment Advisors**
- **Nicholas Hulme, Executive Director, General Manager Unigestion Asia, Unigestion**
- **Tony Wong, Head of Wealth Solutions, Sales & Product Strategy, CSOP Asset Management**
- **Alain Groshens, Co-Founder & Chief Executive Officer, SystematicEdge**
- **Tobias Bland, Chief Executive Officer, Enhanced Investment Products**
- **Terry Tsang, Chief Investment Strategist, Premia Partners**

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"WE COME OFF RECORD LOW volatility in Asian equities, and most of us hopefully had a high allocation to that asset class last year and did reasonably well," noted one expert on opening the panel discussion. "But since early this year, risk has risen and has stayed elevated, including now the US markets, which had until very recently been somewhat exempt from the problems elsewhere. Without an adviser or a smart allocation process or some proactive, smart advice on how to manage these changes and the enhanced risk, then investors will not do as well as they should."

He gave some details to back up his view that risk is the most important factor to address. The risk in Asia last year, as measured by a broad benchmark, was about 10%, he reported, explaining that this figure was extremely low for Asian equities from a historical perspective.

"If you had a high allocation you should have made a 20% to 30% return on that piece of your portfolio," he elucidated. "Then in February risk suddenly jumped by 50% or more to around 16%, so clearly investors' portfolios needed adjusting to reflect that big jump in risk. We provide advice, but we also run funds, and we adjusted our allocation down to 70%."

Risk rises, allocations fall, relative performance improves

He explained that his firm manages an Asia-focused Beta-type fund, so its allocations will always be long Asian equities. "From February to September the market was down 13% so a full allocation would have been reflected fully in the same weak portfolio performance," he noted. "However, if you had a lower allocation you would have outperformed. With our allocation down to 70%, we outperformed by 30%."

He explained that risk has since risen further, with Asian equities now in the low 20% range. "You clearly need to adjust again, using dynamic risk management strategies. I have a very strong conviction that you should always have a range of exposures long-term, but they should not be static, they must be managed dynamically."

NICHOLAS HULME
Unigestion

TERRY TSANG
Premia Partners

ALAIN GROSHENS
SystematicEdge

A new moment in time for credit

Another guest observed that the markets are in a moment of what he termed 'credit correction', implying that investors should move to safer assets. He explained briefly about a fund his firm had launched this year to wrap investment grade Hong Kong dollar floating rate notes and certificates of deposits and commercial paper.

"By wrapping all these obligations into one instrument we can offer higher returns to investors as well as lower term, credit and interest rate risk," he claimed. "Asian investment grade paper has long been a good story, even going back to the regional and global financial crises."

He also surveyed the wider picture, commenting that he expects further widening in high yield credit and China debt spreads. "I actually believe this is a correction, not a crisis; in my view we are in fact getting back to where we should have been had we been in more normalised times. This is healthy."

A fellow panellist pointed to a Hong Kong Dollar Money Market Fund ETF his firm had launched this year, which had already attracted around HK$2.5 billion of new money. "We see demand from the retail space, as well as professional investors, traders, family offices and others around the region," he reported.

Another guest highlighted his firm's Global Market Income strategy, which he described as a systematic global macro strategy. "GMI collects income from value assets across asset classes, across global regions and assets that have a compelling valuation," he explained. "We believe it is important to focus on income that investors can count on."

His firm also offers bespoke solutions, managed futures solutions and cash enhancement solutions. "This is where we work with investors to define their objectives," he elucidated. "We discuss and define their risk tolerance and the type of vehicle they want to invest in and we then design, implement and execute investment strategies based on three investment factors, namely value, quality, and carry."

The World According to ARP

An asset manager whose firm handles USD25 billion of assets under management (AUM) globally highlighted a risk management strategy that he

HAROLD KIM
Neo Risk Investment Advisors

advises as ideal for high-net-worth individuals (HNWIs) in Asia.

"We have found that here in Asia there is strong demand for cross-asset solutions," he reported, "by which we mean being able to invest all the way across the spectrum of asset classes and in alternative risk premia. ARP has been designed as a solution to replicate the types of returns that a client might have historically found from hedge funds although where the returns post fees are no longer so appealing, but with daily liquidity, full transparency, at a lower cost."

He explained that the firm sees risk management as an enduring driver of long-term investment performance, and therefore the firm focuses a sharp risk lens on all its strategies. "ARP was developed as an addition to a multi-asset or a balanced portfolio to reduce volatility and increase returns over the longer-term. For an investor to build the underlying risk premia by themselves is very complex and requires special expertise such as ours for the portfolio creation, hence clients warm to our expertise and tailored solutions."

He closed with a rhetorical question as to why he was there in Jakarta at the Hubbis event. "The answer is that our ARP strategy was up 1.5% in October, which was a very difficult month globally, so we have provided uncorrelated returns and protection in a turbulent market. ARP should be a core component of anybody's alternative allocation."

Timing is (not) everything, adaptation is...

"This year has proven yet again that correct timing in the markets is nigh on impossible," commented another panellist. "The key is that as we are getting closer to the end of the cycle we will see a market cycle change and then the risk regime changes as well. So, in the systematic strategy or in managing risk overall what is very important is to really capture not only fundamental data to know about the cycle, but to capture a sentiment as well, to capture risk data and market data. Thereby we can adapt to market cycles."

The discussion turned to ETFs, with one guest noting that Singapore and Hong Kong are the only markets left with 'trailer' fees. "We are still rather in the dark ages in that regard," he said. "We will soon in Hong Kong get active ETFs onto the distribution platforms and those will pay trailer fees, meaning that investors will be paying higher fees for a very low fee product, but that apparently is the only way to get these products onto the platforms."

He explained that he did not understand why the Hong Kong Securities and Futures Commission (SFC) would allow this. "For example," he said, "look at Australia which has banned retrocession fees and there the ETF industry has since been taking on a lot of new money and is becoming healthier. Whereas we have probably delisted more ETFs in Hong Kong in the last year than we actually listed."

ET(Fs) come home

Nevertheless, another guest noted that ETFs continue to be relevant in Hong Kong for bringing international investors into China in a safe and orderly manner. "If the ETF Connect works as planned, namely allowing Chinese investors access to global investments through Hong Kong-listed ETFs, this will be very positive for mainland China investors. We are certainly trying to create products that are suitable for their appetite."

"We are big supporters of this ETF ecosystem," an expert added. "We believe it should grow as it gives people more efficient ways to get exposure. But relying on private banks and their current method of distribution will fail because those are high-cost delivery platforms and the banks share in the revenue. When we talk to private banks about putting our fund on their platform we need to double our fees essentially because we have to turn around and pay them most of our fees. But discretionary portfolio managers will increase their exposures to ETFs and brokerage is another channel for growth."

As a firm rule, the same expert noted, his firm

TOBIAS BLAND
Enhanced Investment Products

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focuses on moving investors into low entry cost ETFs wherever possible. "We need to democratise the way we can invest and make it as cheap as possible to get these different exposures, a wide range of people need to come to that recognition. Additionally, it makes no sense that Asian clients mostly trade the US-listed ETFs, even for non-US exposures, so we need a full ETFs eco-system here, but it is not happening as yet."

A fellow panellist agreed, adding that there is a growing demand in Asia from discretionary managers for more ETF exposure, in other words using passive strategies as part of active portfolios. "But for the moment, Asian investors will continue to trade ETFs through the US, as it is fully transparent and liquid."

Seeking out a new investment ecosystem in Asia

The Chair re-directed the debate towards private banking fees. "In the investments arena," said one expert, "there is no clear justification for high fees unless they are sourcing something that truly is different and special. However, we know from experience that in order to get a fund such as ours onto private bank platforms we need to raise our fees, which will then erode returns. Of course, I understand the banks have costs and there is value to the custody side, but in general we need to see the whole investment ecosystem develop, including independent custody, so that the banks are no longer the ones to control the assets."

A fellow panel member agreed, adding that several of his firm's investors have returned to them because the fees that private banks charge are so high for both brokerage and custody.

Looking further ahead to future market performance, another panellist noted that markets are moving more towards some form of interest rate normalisation, away from the distortions caused by QE. "In this normalisation scenario," he observed, "people will need alternatives, uncorrelated returns as markets will be more challenging."

"The investment management industry is really at an inflexion point," another guest commented. "Investors are very keen to optimise their costs, so what we, for example, are doing is to combine digital technology on the one hand, finance and

TONY WONG
CSOP Asset Management

of course portfolio management experience and thereby really to maximise risk-adjusted returns for investors and massively compress cost in a scalable way."

A colleague on the panel concurred, noting that as a smaller, independent firm that works with a variety of best-in-class partners the challenge is to use digital, including robo-advisory, to enhance the quality and range of products and services for clients.

Don't stick....twist

The final comment was from one expert who referred back to his view that the current elevated risks and his expectation that risk will remain high. "Asian investors must understand risk management dynamics and be far less static if they want to perform in the current and anticipated market conditions," he said. "Our constant goal is to educate all the people we work with, the partners, the counterparties and investors to understand that risk is dynamic, that risk needs to be managed. This is a great opportunity for firms like ours and for many in the market to take a more enlightened approach." ■