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

Relevant Investment Ideas to Discuss with Clients Today

A panel of experts assembled at the Hubbis Investment Solutions Forum told the audience that simple investment strategies that have worked so well in the heady days of global financial markets should be adjusted to incorporate more diversification to alternative assets, to uncorrelated investments and to specific subsets of the private equity, equity and debt markets.

These were the topics discussed:

- *What are the main investment themes and the products that will be most relevant in 2H?*
- *How will you help clients shift mindset, investing style and portfolio holdings as the market transitions to a more volatile phase?*
- *Do frontier markets like Vietnam offer a viable investment opportunity today?*
- *What are some of the more interesting private equity opportunities today? How do clients access these opportunities?*
- *What is your current thinking about the role of fixed income and credit in HNW / UHNW clients' portfolios?*
- *When investing in credit - investors have for the last 8-10 years been rewarded for keeping liquidity and going down in credit quality. Is this still a smart thing to do?*
- *Equities: Thematic equities have received a lot of hype - some good / some bad. Whats the best way to find alpha and non-correlated returns?*

PANEL SPEAKERS

- **Christina Kautzky, Head of Distribution Non-Japan Asia, Credit Suisse Asset Management**
- **Karim Ghannam, Chief Executive Officer, 8F Asset Management**
- **Andrew Lee, Chief Executive Officer, EFG Asset Management**
- **Tobias Bland, Chief Executive Officer, Enhanced Investment Products**
- **Kevin Snowball , Chief Executive Officer, PXP Vietnam Asset Management**
- **Nicholas Hulme, Executive Director, General Manager Unigestion Asia, Unigestion**

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EXECUTIVE SUMMARY

Private banks and wealth managers in Asia spend a lot of time and energy working out the optimal approach to engaging cli What investment themes and the products are currently most relevant for Asia's high-net-worth individuals (HNWIs)? Can investors shift their mindsets to the more challenging conditions today, as opposed to the benign markets of recent years? Which countries or regions offer the best opportunities? These matters and many more were pondered by a panel of experts at the Hubbis Investment Solutions Forum.

Some of the experts proposed a core focus on private equity, especially those opportunities that combine sustainability and socially responsible investment (SRI) principles with the generation of alpha, particularly for the new generations of inherited or self-made wealth in the region.

One expert advised avoiding fixed income, but instead proposed a focus on other forms of credit, for example, trade receivables or senior secured, non-mark-to-market debt. An asset management firm professional recommended portfolio construction to house uncorrelated alternative assets that offer alternative risk premium strategies. Another highlighted the appeals of Vietnam as a dynamic, young economy that is transitioning from frontier to emerging market status and which is enjoying dramatic population and consumption growth, as well as powerful export expansion.

No matter what the strategies, it is clear that the panel believed a plain vanilla approach to the mainstream financial markets will not likely generate the returns Asia's HNWIs have come to expect. Their message was diversification and specialisation.

THE DISCUSSION BEGAN by launching into private equity. "We have an individual approach of partnering with a leading technology provider and look at building businesses," he explained. And we aim to have a fairly sustainable impact. So, one area we focus on is food, a key concern for the world and its escalating population. Within food, there is the matter of how to supply enough protein for nine or more billion people over the next two decades or so. The production of meat is utterly unsustainable, while fish is the optimal source of protein but some 90% or more of the world's seas and fisheries are depleted already. One business we look at for example is the production and supply of fish on a localised basis, without chemicals and antibiotics and with short delivery spans. Right now we are building a company that will in the next five years become the leading producer and processor of Atlantic salmon.

Another expert focused on the early stage developing markets. "From a top-down perspective, Vietnam has one of the fastest

> **"FROM A TOP-DOWN PERSPECTIVE, VIETNAM HAS ONE OF THE FASTEST GROWING ECONOMIES IN THE WORLD," HE REPORTED. "FROM A MICRO LEVEL, IT HAS STRONG EARNINGS' GROWTH THIS YEAR, A STOCK MARKET THAT HAS BEEN EXPANDING FAIRLY DRAMATICALLY NOT ONLY THROUGH PERFORMANCE BUT ALSO THROUGH NEW LISTINGS. YET TO BE CONFIRMED, BUT WE DO HOPE THAT MSCI WILL BEFORE LONG RE-DESIGNATE IT TO AN EMERGING MARKET FROM A FRONTIER MARKET. AS AN EARLY STAGE MARKET, THERE IS OF COURSE VOLATILITY, BUT THE OPPORTUNITIES ARE EXCELLENT."**

growing economies in the world," he reported. "From a micro level, it has strong earnings' growth this year, a stock market that has been expanding

KARIM GHANNAM
8F Asset Management

fairly dramatically not only through performance but also through new listings. Yet to be confirmed, but we do hope that MSCI will before long re-designate it to an emerging market from a frontier market. As an early stage market, there is of course volatility, but the opportunities are excellent."

Another expert noted that Vietnam's first billionaire has been confirmed, a woman, while the population is growing fast, already standing at 100 million, of whom more than half are under the age of 30.

"There are so many areas of expansion, as home ownership increases, as families disperse across the country, as more apartment building emerge it is well known that motorbikes proliferate, with approaching 7 million in Ho Chi Minh City alone, and there is an evolution from bikes to cars, consumption of mobile phones, white and brown goods, their food patterns are changing, for example, they drink much more milk, and so on and so forth."

The spotlight turned to a multi-asset manager based in Hong Kong, which promotes long-only funds and also two hedge funds which are market neutral and non-correlated to most asset classes. "We are developing a new Hong Kong short-term investment grade money-market style fund with a yield of about 2.8%. The spread between corporate lending and yield deposit in the bank is very wide, so your clients can earn around 2.8% on an overnight liquidity which is a bit better than

CHRISTINA KAUTZKY
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what they get in their bank at the moment. Fixed income is not the place to be currently, especially in emerging markets."

Another expert highlighted the appeals of the shorter end of the rate curve. "At the long end," she reported, investors are not being properly compensated for the risk. So, for example, EM [emerging market] paper at the shorter end, so we have been managing short in Turkey since February, a smart trade to have been in."

"We are also talking to clients about fixed income alternatives," she said, "so supply chain finance, for instance, trade receivables that do not have the mark to market volatility of public markets and have a floating rate feature. And senior secured bank loans which over the last year have really traded in and out at the same spreads as you see high yield trading; they are higher in the capital stack and have good protection and an equity cushion."

In short, they seek out pockets of EM, pockets of debt, pockets of fixed income. "Nothing is ever bulletproof but to make portfolios more resilient is the conversation that we should be having, not to be all in or all out, but to make tweaks around the edges given this environment."

Turning to equities, an expert that it is worth looking for the structural drivers of growth that are going to transform the economy and working out how do you play into those, for example, subsets of technology or the revolution in healthcare. "We see a lot of demand here and a lot of alpha being generated," they reported.

A guest highlighted alternative risk premium strategy in the region, which provides uncorrelated returns for clients, especially within private banks and also the multifamily offices and single-family offices. "The best investors have been investing in systematic returns, systematic rule-based strategies for decades and that's essentially alternative risk premium. So, we have pulled a series of systematic returns and put it into one single product. It is like sailing in a safe catamaran, stable, fast, comfortable, secure. So it is in this field, investors should always have an allocation to alternatives rather than just simple fixed income and equities because a balanced portfolio with 25% or more allocated to alternative risk has a much lower volatility, lower drawdown and higher returns."

This works especially well for the growing number of clients asking for uncorrelated returns. "We have developed the strategy that aims to have between minus 2 to 0.2 correlations to equities and it is supposed to deliver cash plus 7% with a volatility of 8," he elucidated. "Almost all our clients historically have been institutions but from this strategy, in the past 20 months we have USD250 million AUM mostly from family offices, so it has been very successful for us."

Another guest explained that his international asset management company runs strategies from pure fixed income to equities to multi-asset. "We put a lot of focus and resources into asset allocation and all our strategies are run on high conviction and high concentration, that is why our investors buy into us, we are not closet trackers."

He explained that the firm runs a global bond portfolio, with weaker countries automatically screened out. "In the year 2011 and year 2012 when the European Debt Crisis emerged, for example, we had zero in those markets.," he reported. "And we seek value, so we are part of the relatively new trend to value bond investment. In simple terms, if you have a semi-duration BBB plus bond with a fair value 100 basis point spread, but market inefficiencies allow you to buy those bonds at a 3% spread. So, the market can adjust, giving you a capital gain or the market does nothing, but you have the 300-point spread. And if the credit deteriorates, then it would have to fall many notches on the credit spectrum to absorb the difference between the 100bp and 300bp spread, and that happens very, very rarely."

The discussion turned to ESG strategies, that are increasingly important to the newer generations of Asia's wealthy, and also to female investors, who hold a growing proportion of Asia's private wealth.

KEVIN SNOWBALL
PXP Vietnam Asset Management

NICHOLAS HULME
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"When we speak to investors especially on the family side," noted one expert, "the older generation is obviously still very much driven by return and they want alpha, but when it comes to private equity the younger generations are more sensitive to the environmental, social and sustainability issues the world is facing and private equity can provide an ideal mix between creating alpha, creating return but also doing some good for the world." ■