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What products and strategies will be best for HNW clients in 2018?

As talk of market corrections becomes ever louder, wealth managers might be considering advising and structuring more cautious portfolios for their clients. But caution too early can mean losing out on more remarkable gains. A panel of experts debated the right approach.

These were the topics discussed:

- *Nearly everyone had a good year in 2017 - what are your best and worst predications for this year?*
- *What funds / investment products have you got that are specifically relevant to China-based private banks and wealth managers? What are your plans for growing this opportunity?*
- *What's your view on technology, margin pressure and regulatory reform?*
- *Multi asset, Income generation and liquid alternatives - what will be the main themes for 2018?*
- *What strategies will enable Chinese / Asian investors get higher returns, whilst been mindful of potential market challenges in 2018?*
- *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?*
- *What alternative investments are there for HNW and UHNW clients and why are they relevant?*
- *What's the increasing role of Physical Gold?*

PANEL SPEAKERS

- **Michael Levin**, Head of Asset Management, Asia Pacific, Credit Suisse Asset Management
- **Lincoln Chow,** Director, Head of Sales, Hong Kong & Singapore, Financial Institutions Marketing, Commerzbank
- **Nicolas Mathier,** Managing Partner, Global Precious Metals
- **Tony Wong,** Head of Intermediary Sales, CSOP Asset Management
- **Ashok Kothari**, Manager, Horizon Partners
- **Sebastien Brown**, Investment Specialist, BNY Mellon

THE ASIAN WEALTH MANAGEMENT FORUM OF FEBRUARY 27 closed with a panel discussion in which a team of experts Hubbis had assembled debated the outlook for the financial markets in 2018 and discussed the most appropriate strategies for their HNW Asian clients.

Almost everyone who was well invested in the global equity markets had a good year in 2017, even though valuations were high, and naysayers advised caution.

The year 2018 has begun comparably to 2017, albeit with some additional volatility and the market blip from January 26 through February 8. But when downside risk is potentially more significant than the last legs of the upside—as the JPMorgan co-president warned on March 8—should wealth managers err strongly on the side of wealth preservation?

MICHAEL LEVIN
Credit Suisse Asset Management

Asia's wealth management product creators and advisers also face special challenges due to the highly diverse geographical and jurisdictional spread of markets in the region, from Australia to Japan to China, SE Asia and India.

Seldom, other than at times of abject crisis, do all these equity markets and currencies move in the same direction at the same time.

Should wealth advisers be offering products to Chinese HNW clients that are very specifically relevant to the China market? Or is there a balance to be struck as more of China's created wealth moves offshore with a more global approach to asset portfolios?

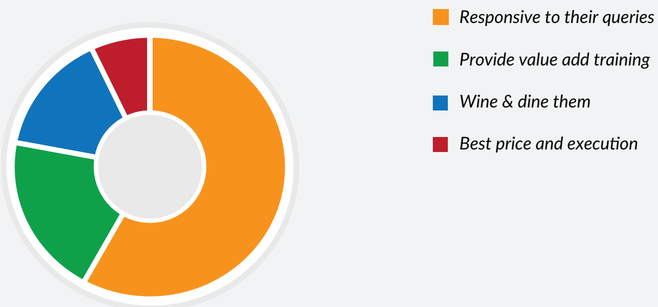
What role will alternative assets play in the region? What about impact investments, as Asia's second and third generation wealthy diversify some of their portfolios to more altruistic investments? Will private equity play a larger role as the sophistication of Asian HNW investors increases?

Leverage – game over?

The first point of debate in the panel discussion was whether fixed income fund leveraging–up to nine times leverage in some cases in 2017–could persist, safely?

"We are at a critical juncture where things are about to change," observed one panel member. "We

HOW DO YOU ADD VALUE TO YOUR DISTRIBUTION PARTNERS?



Source: Hubbis Asian Wealth Management Forum 2018

have got through our first panic attack, but for fixed income, we really are at the end of a 37-year super-cycle for bonds."

"I believe that if you look at the magnitude, the duration, and the consistency of both equity and fixed income returns over the last nine years it is unsustainable."

Another expert noted that a year or two ago, the idea was that you could borrow cheaply at multiples and leverage relatively safe yields, investment grade yields of 4% and you could borrow at 1.5%.

"That is a fantastic carry, especially with the very low risk of defaults and relatively accommodating global monetary policy," he says. "But now we are in a different time where Libor is up to 1.95% [February 27] and then you add on a yield differential because credit spreads are compressed, and the yields are much lower."

"AS A SMALLER FIRM THAT WAS FOUNDED TO INVEST MY FAMILY MONEY AS WELL, WE CAN SAY TO OUR CLIENTS THAT WE INVEST FOR THEM AS WE DO FOR OURSELVES."

LINCOLN CHOW
Commerzbank

"The amount of incremental return that clients can obtain for a doubling, or a tripling, or a quadrupling of your risk is no longer justified," he said. "That de-leveraging is going to have a massive impact on generic fixed income asset classes and funds."

Changing mindsets

One theory was that there will be an inversion of sentiment and reality, whereby assets perceived to be risky will become safe and those considered safe will become risky. "When you look at US Treasuries, for example, they can decline, they may not have credit risk because you can print money, but they are going to be risky," said one panellist.

Will the Yen be a refuge in a storm? Possibly, said another expert, but he argued that assets in non-dollar markets will become ever safer, for example in places such as China, India and other emerging markets.

"We should move away from traditional fixed income, move away from the sovereigns as we should have already done," he added. "We might soon look back at the $11 trillion invested in negative interest rates and say 'what on earth were we thinking?"

According to him, senior loans can offer a 6% yield in floating rate format, excellent protection. "Currently perceived as risky but according to our analysis, they are safe," he added. "And local currency bonds will have solid appeals."

As to equities, the same panellist argued that investors should look well beyond traditional developed markets and move to historically-perceived risky markets providing access to China and India.

Mainstream... with caution

Another expert turned the focus back on the mainstream market trends. "If you looked at what happened last year in 2017, the market, especially in the US, probably had the most conducive environment that we ever had in the last ten years," he said. Last year investment was relatively simple, he said. "You hold on to stocks, some tech stocks, you made a decent return."

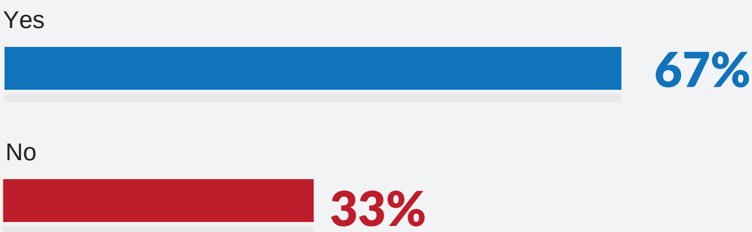
"But this year I think the advice that we always want to give to the client is 'be careful' this year," he noted. "For example, the fixed income market earlier this month spiked from 18 to 37 in one day and almost up to 50 at one point."

So, clients ask for advice, and we tell them we believe the market is still intact, but be conservative and put more protection into your portfolio," he said. "Then it is up to their tolerances as to how much downside they can bear."

Another panellist concurred with the general view that markets are at an inflexion point. "Central banks

NICOLAS MATHIER
Global Precious Metals

INVESTMENT FUNDS AND PRODUCTS ARE SOLD OUTSIDE ASIA IN A VERY TRANSPARENT WAY TODAY- DO YOU THINK THIS MIGHT EVENTUALLY HAPPEN IN ASIA?



Source: Hubbis Asian Wealth Management Forum 2018

have been hugely supportive of asset prices but are now withdrawing some of that stimulus and starting to raise interest rates," he said. "In this environment we think diversification is key and alpha is going to be a lot more important." He noted that one of the unforeseen consequences of central bank policy had been a massive misallocation of capital.

"Clients have been taking far too much risk, and with multiples so high in equity markets, income from stocks will be a far higher component of total return," he said. "We are talking to our clients about our equity income strategy to generate returns in this quite challenging environment."

And another panel member suggested wariness over some dividend payers, for example, utility stocks that were great beneficiaries of highly leveraged balance sheets in a low rate environment.

"Now they trade at a premium but because dividends on stocks have been higher than the yield on debt," he said. "With a bout of rate hikes to come, there has to be a point where that has a negative impact on equities and fixed income."

Re-calibration of expectations

One expert noted that February's volatility was a wake-up call for clients to re-calibrate their expectations and take some profits off the table going forward. "One of the strategies we manage is a multi-asset diversified fund, with gold as a core component," he said. "If there is one thing we know about wealth clients, it is that they do not like to lose money." When markets keep on hitting these all-time highs, capital preservation becomes rather more important, he noted.

An expert talked about ETFs that help clients access the China markets. "We believe that the new China economy is still growing and we are looking at the growing middle class, consumer upgrades, technology stars, information tanks, healthcare, and urbanisation." According to him, companies that are favourable to the China reform policy are the key drivers and this is what his portfolio managers are looking into as well.

"I think the worst scenario will be high volatility prevailing in the market," said another expert. "But I do not see that extreme, so my view is leaning towards higher volatility but not too much higher, at levels bearable to most of the investors."

Diversification to alternatives

In this current market environment of mainstream markets performing so well for so long, selling alternatives has been very challenging.

"However," argued one panellist, "in my view right now 'alternatives' are in fact the best alternative as all of the factors that augur badly for stocks and fixed

TONY WONG
CSOP Asset Management

income–rising volatility, rising rates, lack of correlation–create opportunities for alternative investment managers, particularly, hedge funds."

But he also explained that because of the lack of scalability in the sales effort, because of the degrees of separation, the difficulty of being able to communicate the message effectively, it is challenging to deliver that to the client.

"As an industry, the wealth sector has to fight against the desire to focus on what is easy to sell or that provides the greatest remuneration," he maintained.

This panellist added that alternative investments that went out of favour around 2016 but are already making a comeback. "I think it is essential that clients start diversifying their portfolios," he commented.

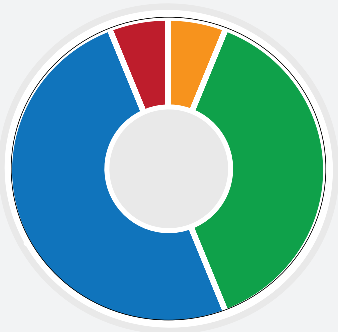
The allure of gold

Another expert turned the focus towards gold. "Precious metals offer wealth protection," he said. "These are not products you look at and think of X% returns a year but are more like life insurance." He noted that slowly and surely people will start realising that having precious physical metals outside the banking system is a good thing.

He added: "We trade directly with the biggest refineries that produce the gold bullion bars and we can store their precious metals in over 25 countries now outside of the tax and banking system."

SEBASTIEN BROWN
BNY Mellon

WHAT IS THE ONE ATTITUDE THAT ANNOYS YOU?



Source: Hubbis Asian Wealth Management Forum 2018

Frontier and other 'new' markets

And another expert turned the spotlight on frontier markets, zooming in on an example of a frontier market concerning geography. "We have a Mongolia fund," he said. "Mongolia is between Russia and China, and similarly we have a Bhutan fund, that is between China and India."

According to him, both are frontier markets and institutions are just beginning to discover it. "But families and individuals can often move in earlier, and that offers the best returns before the institutions turn their attention to these types of opportunities."

But can Mongolia, which is a tiny market, offer 20-year returns? "Mongolia's GDP per capita is about $4,000," he said. "It is likely to go to $20,000 or so in five to six years because there is more than $500,000 per capita of proven mineral resources."

The same panellist also highlighted another alternative investment in the form of a new real estate asset class, student accommodation.

Studying the student property market

"Parents nowadays worry about the drop-out rate," he said. "They worry the students may drop out if they are not comfortable, and they have more money to spend."

He explained that the newest student housing class is new four-bedroom apartments. Each bedroom has its bathroom, one student per room and this is the highest return of any real estate asset in the US and Britain.

He noted that large institutions are just beginning to get into it, and there are only three or four large institutions that have invested $1 billion approximately each. "But this is very interesting for family offices and other wealthy clients."

Give the clients what they – not you – want

And inevitably the conversation also turned to product creators and their relationships with distributors. "All too often there is a desire to sell what is easy to sell, and that is not necessarily in the best interest of the client," commented one banker.

ASHOK KOTHARI
Horizon Partners

And one panellist concluded the discussion with a comment on active versus passive investment management. "If you look at the US market, the penetration of discretionary portfolio management is about 30% of assets, but a far lower proportion in Asia," he said. "We haven't offered enough choice, enough customisation."

Wealth managers need to give clients transparency, ownership, control and the ability to tailor or personalise, he stated. "As that happens, it will be the biggest transformation that we see over the next several years in private wealth." ■