

A MORE RATIONAL, MANAGED APPROACH TO PORTFOLIOS

CHANGES IN PRODUCT APPETITE, THE EVOLUTION OF THE ADVISORY MODEL IN ASIA, AND GRADUAL GROWTH IN DEMAND FOR DISCRETIONARY PORTFOLIO MANAGEMENT ARE THREE OF THE KEY DRIVERS TOWARDS MORE MANAGED PORTFOLIOS FOR PRIVATE CLIENTS, ACCORDING TO MARKET SPECIALISTS SPEAKING ON A PANEL DISCUSSION HOSTED IN HONG KONG BY BNY MELLON MANAGED INVESTMENTS ASIA PACIFIC.

Managed solutions look set to play a more prominent role for Asian private clients going forward.

As a growing number of high net worth (HNW) and ultra high net worth (UHNW) clients become more sophisticated and knowledgeable from an investment and product perspective, the focus is moving towards a longer-term, more rational and sustainable approach to their portfolios.

This is according to three prominent product gatekeepers, speaking as part of a panel discussion hosted in Hong

Kong by BNY Mellon Managed Investments Asia Pacific in late September.

AN EVOLVING ADVISORY MODEL

With this shift in mind-set among clients, banks should more explicitly offer an advisory fee-based model, said Edouard Hoepffner, head of new product and client solutions for Coutts in Asia – instead of sticking to a predominantly transactional model.

At Citi Private Bank, Roger Bacon, head of managed investments & advisory

in Asia Pacific ex-Japan, said there is already some demand for single and multi-asset class products on a wrap-fee basis.

However, he added, he is still waiting to see more inflows in this area.

An important catalyst is regulatory change. This is because the cost of doing transactional business has significantly risen in the last couple of years at the same time as transparency has risen, said speakers.

Another potential driver, meanwhile, is the concept of “valuable” advice.

As advisers move up the wealth chain, Kathryn Dioth, a chief investment officer from a family office, said that asset allocation is vital for HNW clients – which itself, she explained, is value-added advice.

If advisers can let clients know where the sweet spots are in the market, then there is more chance that they will embrace the concept of the advisory model, said Dioth.

Further, added speakers, is the importance of striking a balance between a lower fee structure for clients and a





Edouard Hoepffner

Coutts

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By operating on a Separately Managed Account platform, bankers can offer DPM portfolios that are in fact continuously managed by multiple managers around the globe who are experts in different themes and strategies.

For Bacon, he said he wants fund salespeople to know their product better.

For example, he said he doesn't want to be offered 40 different funds from any one particular house.

This shows a lack of understanding in some cases as to the broad service and offering that the banks look to provide to their clients, added Hoepffner.

Instead, Bacon said he wants providers to pick the top handful of world-class capabilities and be able to explain the value proposition as to why he should put them on his platform.

This leads to more focus and less time wasted, he explained.

reasonable remuneration package for wealth managers.

For instance, selling mutual funds via a wrapped fee advisory mandate is gaining popularity both among clients and also advisers.

With clients not sticking to any one option, and instead buying the cheapest available, Bacon said this means that if they buy a fund using a retail share class, then any applicable retrocession which would originally go to distributors now goes directly back to the clients' account in this type of mandate – meeting both advisers and clients' interests at the same time.

ing a discretionary portfolio using mutual funds. Yet what she really wants, she explained, is discretionary portfolio management (DPM) in direct securities, bonds and equities, which is managed on an ongoing basis by skilled teams of portfolio managers and securities analysts.

“Selling mutual funds via a wrapped fee advisory mandate is gaining popularity both among clients and also advisers.”

MEETING EXPECTATIONS

When it comes to the meeting of expectations between distributors and product manufacturers, the gatekeepers on the panel said they are on the look-out for products that are more aligned with their objectives and the goals of their clients.

A typical conversation that Dioth said she has with product manufacturers, for example, would involve them pitch-



Kathryn Dioth

Family Office

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DISCRETIONARY MANDATES ON THE RISE

A common theme among Asian private clients is the challenge they face in knowing which products and investments to choose from to meet their needs and goals.

As a result, Bacon, Hoepffner and Dioth all said they welcome the concept and growth in acceptance of DPM in Asia. However, they added words of caution as to the fact that banks – and individual bankers – must first earn clients' trust before being able to justify a shift into more discretionary mandates.

But a mentality of risk management and asset allocation as the new starting points of a conversation about investments is leading to greater scope for discretionary offerings.

The slow road has seen discretionary business at Citi Private Bank, for in-

For Citi, the specialised nature of the Separately Managed Account business in Asia means it is operated out of the US platform, which, said Bacon, is much less efficient for Asian equity managers to manage segregated accounts.

Plus, as the current infrastructure uses US dollars for certain products, it is less flexible for a typical client who doesn't use US dollars on a daily basis. "For broader discretionary mandates, we leverage our EMEA platform as well," explained Bacon.

And even once an Asian-centric platform is in place, Bacon added that clients will likely want to see the track record first before fully entrusting banks with their money.

At the same time, he explained, the spotlight on performance and the ability to make quick decisions means clients need a good platform to provide them with easy-to-understand and consolidated reporting.

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stance, rise from around 3% of the assets within the managed investments segment in 2010, to nearer 10% today, said Bacon, with managed investments accounting for roughly 40% of the private bank's investment business P&L.

And although the growth in this segment is promising, that number is still low compared with Europe and the US.

This, said speakers, is partly because of the relatively limited use of platforms in Asia, and partly because the lack of a track record.

ROLE OF TECHNOLOGY

Providing that type of service is where technology could be an enabler.

A typical client in Asia, for example, will tend to have four to five private banking accounts – and across these is likely to have dozens of investments and asset classes.

As a result, the reporting that clients get from each bank will likely look more like a thick book full of jargon which is hard to understand and follow.

Emerging investor appetite in Asia

Investors in Asia are increasingly looking at the equity markets again, six years after the financial crisis, according to Roger Bacon at Citi Private Bank. He said he expected this to continue to be a theme for 2015, as more money vies for access to markets like China.

Yet lingering bad memories of the financial crisis are leading investors to look at equity opportunities in a more defensive way, added Bacon. Use of hedge funds, for example, increased by 800% from September 2012 to September 2014, he said.

Edouard Hoepffner of Coutts agreed with Bacon, seeing his clients put more emphasis on protection when talking about investment.

Within the fund space, meanwhile, Kathryn Dioth said that she expects to see more specialised funds in the market – such as those related to Chinese e-commerce and the healthcare sector.

A platform which can consolidate all portfolios and positions, therefore, and generate a report in an easy-to-follow format, will help both the advisers and clients to make better investment decisions together.

If that can be achieved, then it will fuel a faster take-off for DPM in Asia, said the speakers. ■