HOW TO DELIVER INVESTMENT PERFORMANCE

Today's investment climate is characterised by simpler product, new ways to view and price risk, and a need to differentiate by service, according to panellists at Wealth THINK 2014 in Singapore in late September.

There seem to be three core investment themes which are shaping the current investment landscape: a mispricing of risk; a search for yield; and policy divergence.

At the same time, the role of central banks has grown significantly, to the point where almost every asset class is now influenced by central bank policies, with asset price inflation despite the lack of price signals.

As a result, many of the traditional methods of looking at fundamentals and technicals are no longer relevant. This is compounded by the existence of more "black swan" events than ever before.

This was according to panellists at Wealth THINK 2014 in Singapore in late September.

"At the liquid end of the fixed income market, for the first time ever in 2013, yield for high-yield deals were 6%; and in 2014 they have fallen below 5%," said Michael Levin, head of asset management product and head of alternative investments, private bank, at Credit Suisse in non-Japan Asia and Australia.

Michael Levin

Credit Suisse

"Investors are giving up a lot in terms of credit risk for the incremental yield"

What is clear, he added, is that investors are giving up a lot in terms of credit risk for the incremental yield.

Striving for differentiation

In terms of investment appetite, simplicity and ease of transactions have become common factors in the market today, agreed speakers.

According to Bernard Wai, managing director and head of private client solutions, Asia Pacific, at Citi Markets, this is especially the case in relation to structured products, triggered by regulatory reforms.

Post-2008, he explained, the industry has moved towards providing more commoditised products.

At the same time, an increasing number of Asian clients are focusing on products outside of the region, especially in the US.

Yet without the scope to be overly innovative in relation to individual product, differentiation is more feasible through the service offering.

Kylie Chan, head of sales for Old Mutual Global Investors in Asia, reiterated that it is increasingly difficult to differentiate from an asset manager's perspective, given the shrinking gap between asset classes.

As a result, coming up with new products really means developing new product features.

Going through specialist managers has been one way to ensure differentiation, added Geoffroy Ganshof, head of wealth management at EuroFin Asia Group.

Finding yield

There are some avenues for investors to pursue in terms of yield.

Private lending offers attractive yields, for example in trade finance, said Ganshof.

International investors are also underweight emerging markets despite the fact that these markets represent 57% of global GDP, added Simon Hopkins, chief executive officer of Milltrust International.

"I would expect over the next decade to see a shift in focus by private wealth managers into these markets."

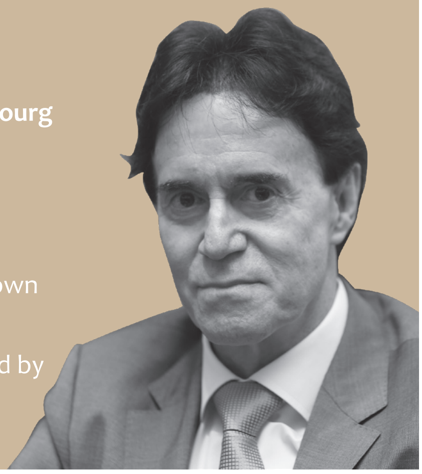
Among the challenges to this, however, is the fact that those banks which represent the largest amount of distribution are focused on the fixed income space, for example via structured notes and bond funds, given their need to extend their balance sheets.

That limits the amount of scope for sales into equity mutual funds, said Hopkins, adding that while fixed income appears to be safe, this is far from true in practice.

Hans Goetti

Banque Internationale A Luxembourg

"The role of central banks has grown significantly, to the point where every asset class is now influenced by central bank policies"



Yet with exponential increases in regulation, the smaller firms get hit the hardest, explained Hans Goetti, head of investment for Banque Internationale a Luxembourg in Asia. "The question is whether the smaller firms have enough stamina to survive."

Changing priorities

While discussions between wealth mangers and clients pre-crisis tended to be about returns, with fairly indiscriminate allocations, clients are now much more conscious of risk, said speakers.

They are also more receptive to new asset cases and strategies which can help them diversify. But at the same time, they are more realistic in terms of what they expect in relation to risk and returns. "We lead with a discussion about risk," explained Levin, "so investors shouldn't view allocations to investments like hedge funds as a leap of faith." The goal, he added, is to find what he calls "durable" investors and investment strategies. "The more conscious clients are aware of risk, the more they can capitalise on the opportunities of alternatives such as hedge funds, for example," said Levin.

Bernard Wai

Citi Markets

"Simplicity and ease of transaction have become common factors in the market today, especially in relation to structured products, triggered by regulatory reforms"

When it comes to emerging markets, investors tend to invest on a global emerging markets basis, added Hopkins. "The way to approach emerging markets is to deliver the component parts of an emerging markets strategy."

Evolving product offerings

According to Hopkins, there is the potential for a backlash against the largest players in the industry – once investors realise they have under-performed for many years, he explained.

Kylie Chan

Old Mutual Global Investors

"A key focus is to build the wealth of clients, which is based on determining the investment themes that we think will perform going forward"

Geoffroy Ganshof

EuroFin Asia Group

"Investors are paying a high price for liquidity in the bond market, whereas in private lending, with less liquid product, yield is more attractive"

At the same time, there will be a move away from the short-term fad for ETFs and back towards active management, he added. Ganshof emphasised that investment strategies are more important than the individual product.

Added Goetti: "It is our job to identify the investment themes and discuss these with clients to manage their expectations, and then find the right managers to deliver investment performance."

Levin said he is focused on the concept of "thinking differently", with opportunities to be driven by regulatory changes and the obsession with liquidity. He is adamant that investors shouldn't outsource due diligence, nor be obsessed with structures. By contrast, less liquid strategies are attractive, leading to a blending across structures and liquidity profiles to enhance diversification.

And once the need is identified, Wai said it is then possible to innovate based on the actual requirements of the clients. Added Chan: "We need to be more open-minded when advising clients on their investments." ■

Simon Hopkins

Milltrust International

"International investors are underweight emerging markets despite the fact that these markets represent 57% of global GDP"