Investment Solutions Forum 2019 - Hong Kong

Post event Supplement

Investment Solutions Forum 2019 - Hong Kong Post Event Supplement

More than 200 CEOs, COOs, Independent Asset managers and other senior practitioners attended – from a mix of local and international Private Banks, Retail Banks, Insurance Companies, Independent Firms & Family Offices, Asset Management Companies, and IFAs.

Thank you to all of our event partners: Swissquote, Premia Partners, Quantifeed, ADS Investment Solutions Limited (ADSI), CSOP asset management, Aberdeen Standard Investments, Neo Risk, Morningstar, Orbium.

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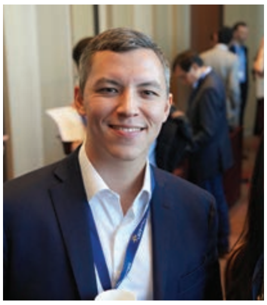

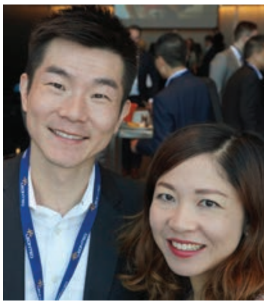


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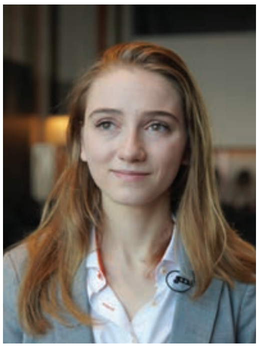

The future ahead: Emerging markets on the rise of multi opportunities

We were delighted to host our annual investment-focused event in Hong Kong. Over 220 senior individuals attended – including leading product & fund gatekeepers from the top international and local Private Banks, Retail Banks, Multi-Family Offices and IFAs, as well as relationship managers and investment advisers from the industry.

WITH THE SUCCESSFUL RUN IN THE MARKETS IN THE SECOND HALF OF 2019, we asked where wealth management firms and their clients who have done well during this period will go from here?

We held four interactive panel discussions throughout the day - which involved 20 senior industry practitioners who shared their thoughts on the state of the markets. The themes are ever-more pertinent given the efforts by robo-advisers and other emerging digital platforms to challenge the traditional investment process and distribution channels.

Panelists reviewed the state of the wealth management industry to highlight what value proposition might be required to survive and prosper in the future. They debated whether the cost and revenue pressures are of such a scale as to threaten the survival of some of the key players. They also discussed whether the growth of private wealth in Asia will propel the market, or if only the biggest and best can survive. They wondered if, at the other extreme, the smaller adaptable, nimble newer competitors can forge a market presence and prosper.

On the second panel, a wide-ranging discussion took place, with an eclectic group of experts offering dif

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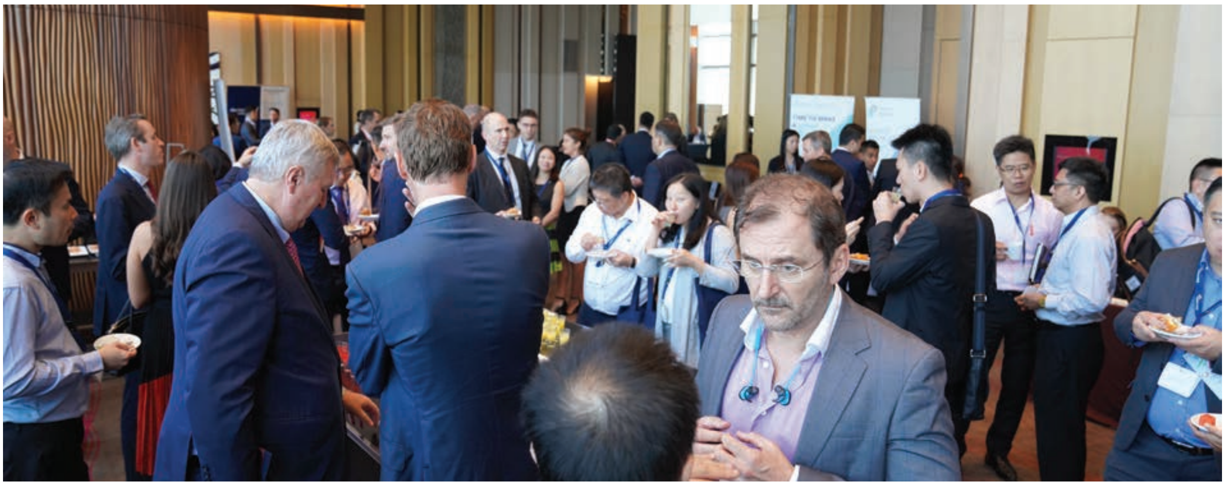

ferent opinions on the future of wealth management in terms of its future products, services, business model and profitability, including assessing the impact of the ongoing battle between active and passive strategies, and the role of digital in promoting potentially improved investment opportunities, strategies and enhanced user interface.

Millennials are the future - those who are inheriting Asia's vast private wealth and those who are now making the region's future wealth. Whichever route they arrive at their wealth, the private banking and wealth management community are concentrating increasing efforts at keeping them within their folds as clients or bringing them to their firms as new customers.

Closing this year's forum, experts assembled at the last group discussion to ponder the optimal portfolio strategies for late 2019 and in anticipation of 2020. There was plenty of healthy disagreement on all the key investment markets, and only one clear consensus, namely that the world remains an uncertain place, and returns will remain elusive. ■

You can view all the content from the day.
Click here to view the content highlights page.

We asked leading industry experts - what are the opportunities and challenges for the year ahead? Click here to view the combined video highlights, or click on the links below to view the individual videos.

Or you can click on the links below and just listen to specific comments from the following individuals who are in the complete video;

VIDEO HIGHLIGHTS

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- I love wealth management
- Donald Amstad, Aberdeen Standard Investments
- Stewart Aldcroft, CitiTrust
- Harold Kim, Neo Risk Investment Advisors
- Ryan Lemand, ADS Investment Solutions
- Entela Benz-Saliasi, HKUST
- Simon Godfrey, EFG Bank
- John Robson, Quantifeed
- David Lai, Premia Partners
- Simon Ree, Options Club




PANEL DISCUSSIONS

Opportunities and Challenges for Asia's Wealth Management Community

AA panel of experts at the Hubbis Investment Solutions Forum reviewed the state of the wealth management industry to highlight what value proposition might be required to survive and prosper in the future. They debated whether the cost and revenue pressures are of such a scale as to threaten the survival of some of the key players. They discussed whether the growth of private wealth in Asia will propel the market, or if only the biggest and best can survive. They wondered if, at the other extreme, the smaller adaptable, nimble newer competitors can forge a market presence and prosper.

- Panel Members
  - *Richard Straus, Senior Managing Director, Head of Private Banking, EFG Bank*
  - *Jean-Louis Nakamura, Chief Investment Officer, Asia Pacific - Chief Executive Officer, Hong Kong, Lombard Odier*
  - *Silvio Struebi, Partner, Simon-Kucher & Partners*
  - *Stewart Aldcroft, Chairman, CitiTrust*
  - *Michael Benz, Senior Advisor, Synpulse*

Positioning the Wealth Management Machinery and Investment Engines for the Future

A wide-ranging discussion took place during the second panel of the Hubbis Investment Solutions Forum, with an eclectic group of experts offering different opinions on the future of wealth management in terms of its future products, services, business model and profitability, including assessing the impact of the ongoing battle between active and passive strategies, and the role of digital in promoting potentially improved investment opportunities, strategies and enhanced user interface.

- Panel Members
  - *John Robson, Chief Commercial Officer, Quantifeed|*
  - *Harold Kim, Founder and Chief Executive Officer, Neo Risk Investment Advisors*
  - *Tony Wong, Head of Intermediary Sales, CSOP Asset Management*
  - *Tobias Bland, Chief Executive Officer, Enhanced Investment Products*
  - *Terence Goh, Co-Founder & Chief Executive Officer, Bam Fintech*
  - *Simon Ree, Founder, Options Club*

Younger Generations of HNWI Clients – Investment Trends and Outlook

What does Millennial mean when it comes to wealth and wealth management, for those who are inheriting Asia's vast private wealth and those who are now making the region's future wealth? Whichever route they arrive at their huge wealth, the private banking and wealth management community are concentrating increasing efforts at keeping them within their folds as clients or bringing them to their firms as new customers. How is the wealth products, services and advisory industry adapting their strategies, and their teams, to cope? A panel of experts assembled for a fascinating panel discussion at the September Investment Solutions Forum.

- Panel Members
  - *Janet Li, Asia Wealth Business Leader, Mercer*
  - *Aleksey Mironenko, Partner & Chief Distribution Officer, Premia Partners*
  - *Entela Benz-Saliasi, Associate Professor, Dept. of Finance, HKUST*
  - *Sunita Subramoniam, Vice President, Product Strategist - iShares, BlackRock*

Shifting the Dial – How Should Asia's HNWIs Recalibrate Their Portfolios

A panel of experts assembled at the last group discussion of the Hubbis Investment Solutions Forum to ponder the optimal portfolio strategies for late 2019 and in anticipation of 2020. There was plenty of healthy disagreement on all the key investment markets, and only one clear consensus, namely that the world remains an uncertain place, and returns will remain elusive.

- Panel Members
  - *Simon Godfrey, Senior Vice President, Head of Products, EFG Bank*
  - *Michael Levin, Head of Asset Management, Asia Pacific, Credit Suisse Asset Management*
  - *Jacky Tang, Head of Portfolio Management Group Asia, Co-Head of Investment Strategy Group Asia, Goldman Sachs*
  - *Harold Kim, Founder and Chief Executive Officer, Neo Risk Investment Advisors*
  - *Angel Wu, Managing Director, Head of Product Management Group, Bank of Singapore*

PRESENTATIONS & WORKSHOPS

ESG Investing Surging Globally, but Investors Beware of Greenwashing

Delegates at the Hubbis Investment Solutions Forum in September were treated to a tale of both great growth potential and also of caution from Andrew Daniels, Senior Analyst, Manager Research at global investment research and management group Morningstar. He told the audience of the growth in sustainable investment activity globally, but also addressed the concerns of 'Greenwashing', the practice of making ordinary funds appear greener than they are in order to win a larger slice of the growing wall of money pouring into ESG alignment.

The GCC – Opportunities in the Newly Emerging Market Status Countries

The Gulf Cooperation Council Countries (GCC) are being upgraded to the status of Emerging Markets by major indices, creating a new region for investors in the EM arena to focus their attention. GCC countries are different from the other countries in the EM universe to date, as they are oil-exporting, their currencies are pegged to the dollar, they enjoy high foreign currency reserves and very low debt-to-GDP. Momentum investing in GCC stock markets has proven to be quite lucrative for traditional Emerging Market investors of late. Dr Ryan Lemand, Senior Executive Officer for ADS Investment Solutions & Global Head of Wealth and Asset Management for ADS Securities addressed delegates at the Investment Solutions Forum to highlight the opportunity.

State of the Emerging Markets: Unearthing the Hidden Gems in Asia

Aleksey Mironenko is a keen proponent of the value HNWI investors can find in China 'A' shares and in the key parts of Asian stock markets. In his capacity as Partner & Chief Distribution Officer for Hong Kong-based investment manager Premia, he gave a presentation at the Hubbis Investment Solutions Forum to highlight opportunities in China new economy shares, in innovative Asian companies and in the firm's recently launched Vietnam ETF. He believes that in a world of inflated valuations and liquidity seeking new homes, ASEAN and China markets are at an exciting phase of development and offer a highly diversified range of opportunities. And to access these, HNWIs can buy into Premia's growing stock of China and ASEAN ETF strategies.

Investing During the US-China Trade Conflict: Uncorrelated Equities and Truly Risk-Free Cash

Throughout 2019 the world has suffered from the US-China trade conflict fallout, and while many investors have been inclined to de-risk and wait it out, there are opportunities lost as well by pursuing that strategy. Instead, Hong Kong investment manager Premia Partners believes a more appropriate strategy is to identify the equity winners regardless, minimise correlations, and buy into truly risk-free assets as a hedge for any doomsday scenario. David Lai, Premia Partner & Co-Chief Investment Officer, and Aleksey Mironenko, Partner & Chief Distribution Officer, paired up for a fascinating Workshop at the Hubbis Investment Solutions Forum.




'Do-It-Yourself Wealth Management': Efficient and Low-Cost Access to Professionally Managed Global Diversified Portfolios

At a recent Hubbis Investment Solutions Forum, Dr Harold Kim, Founder and Chief Executive Officer of Neo Risk Investment Advisors, highlighted how the widespread availability of ETFs combined with managed account technology allows individual investors to have global, diversified, low-cost portfolios managed professionally in their own accounts with full transparency. He called it 'Do-It-Yourself Wealth Management'.

Index and Quant Investing in Asian Markets for Asia's Wealth Management Community

Harold Kim, Founder and Chief Executive Officer of Neo Risk Investment Advisors, offered a fascinating Workshop at the Investment Solutions Forum to explain how factor/smart beta investing and dynamic risk management works. These investment approaches are widely used in developed markets, but their adoption in Asia has been lagging. Using passive investments, smart beta and dynamic risk management can significantly improve investment performance while reducing risk in Asian equity markets.

The China Potential & Using ETFs and Tactical Trading Strategies to Boost Returns

Louis Lu, Head of Quantitative and Alternative Investment Department at CSOP Asset Management, sees huge opportunities for China. He addressed the Hubbis Investment Solutions Forum to explain the why and how of participating in that market, including offering some interesting trading strategies to boost returns, while reducing unwanted volatility.

EM Fixed income and China 'A' Shares – Yield and Return in a Low-Return World

Donald Amstad, Chief Operating Officer, APAC Distribution & Head of Investment Specialists for Asia Pacific at Aberdeen Standard Investments sees real value in Emerging Market Debt as an asset class. He gave a lively presentation at the Investment Solutions forum to highlight these fixed-income opportunities, and to advise HNWI clients and the assembled advisers where and how they can buy such instruments. And he also pointed the spotlight to the great China 'A' share revaluation bonanza that, he believes, has begun in earnest in 2019.




Investment Solutions Forum 2019 - Hong Kong
Video Highlights

At the Hubbis Investment Solutions Forum 2019 in Hong Kong on September 19th, we asked leading industry experts - what are the opportunities and challenges for the year ahead?

Click here to view the video highlights.

We hope you enjoy this summary – it's packed with content from the forum.
Click on the Speakers Name to view their BIO.
You can also read the transcripts in this document - and click on Watch Video to view their exclusive interview.

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Who did we interview?

Donald Amstad
Chief Operating Officer
- APAC Distribution & Head of Investment Specialists
- Asia Pacific
Aberdeen Standard Investments
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Stewart Aldcroft
Chairman
CitiTrust
Watch Video

Harold Kim
Founder and
Chief Executive Officer
Neo Risk Investment Advisors
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Ryan Lemand
Senior Executive Officer, ADSI &
Global Head of Wealth and Asset Management, ADS Securities
ADS Investment Solutions
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Founder
Options Club
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Smart access
for Asia growth
opportunities
#Asia-Innovative-Technology
@Digital @AI @Robotics @Biotech
#Emerging-ASEAN-Titans
@Thailand @Malaysia @Indonesia @Philippines @Vietnam

Donald Amstad
Chief Operating Officer - APAC Distribution & Head of Investment Specialists - Asia Pacific
Aberdeen Standard Investments
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The biggest challenge facing investors globally is uncertainty. And what is new about uncertainty is that it's not just financial and economic, it's now political. And frankly this political uncertainty is going to remain with us until we know the results of the US presidential election in November next year. So, in terms of what that means for CEOs of companies - they don't know where to invest and I, frankly, think that many CIOs of investment companies don't know where to invest. Equity prices are high and bond deals are low. So, the one way that we can overcome that uncertainty is to offer certainty, and investors can get that certainty by buying fixed maturity products. In Asia, many private banks are turning to these products because they offer their clients certainty in this age of uncertainty.

Stewart Aldcroft
Chairman
CitiTrust
Watch Video

Well, the biggest opportunity is to continue to serve the client better. The challenge is getting the clients to accept the business can deliver; half of this is about getting better returns, better investments. Some of it, from the provider perspective, will be to try and be more selective about the clients that they are dealing with. I think one of the things that has been a mistake perhaps by many of the banks is to try to take on too many clients, and then find that quite a large number of them are unprofitable. And so, this is where perhaps the bigger private banks, the bigger universal banks, are going to do quite well because they can be more selective about the type of clients they take on for the more specialist services. If you can get rid of the unprofitable part of the business, then you can make much more money; you can enable your relationship managers to be much more specialist, you can train them better and then they've got a better variety of product that they can deliver to their customer.

Harold Kim
Founder and Chief Executive Officer
Neo Risk Investment Advisors
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First of all, I want to thank Michael and the team at Hubbis for their kind invitation to me to participate in today's conference. This morning, we talked about the challenges and opportunities that technology, both financial and computer, have presented to the wealth management industry. The broad takeaway is, as an investor, now, there are many more opportunities for an investor to express their investment view. Costs are going down, and access to products has grown exponentially. Trends like the rise of ETFs have allowed individual investors to essentially do their wealth management by themselves. On the other hand, advisory providers have been challenged. Costs of stock commissions have

gone down, and the difficulty in out-performing passive indexes or robo-advisors has led to a real challenging situation for advisory providers. If you are an active asset manager and you're not doing better than the relevant benchmark, you will lose assets. If you are a private bank that's not providing asset allocation advice that's better than a robo-advisor, you will lose assets to that technology. And so, we'll see how these challenges continue to evolve. Again, we believe that, on balance, the changes are very favorable for investors, but will be a challenge for private banks and active advisors.

Ryan Lemand
Senior Executive Officer, ADSI & Global Head of Wealth and Asset Management, ADS Securities
ADS Investment Solutions
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The challenge is valuation, obviously. On the equities markets, valuations are very high. On the fixed income market, yields are very, very low, so opportunities are, to a certain extent, limited. We have to look at the short end. The second big challenge is politics, in general. So, this includes the trade war and the tensions in the Middle East.

Entela Benz-Saliasi
Associate Professor,
Dept. of Finance
HKUST
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So, if we talk about opportunity in ESG: it's a very big area. There is a lot of data, a lot of KPIs. However, if you really want to explore new territories, ESG should really be taking a much, much more precise direction towards climate change. So, talking about climate-related products, climate risk, and climate opportunities.

Simon Godfrey
Senior Vice President,
Head of Products
EFG Bank
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The opportunities for investors are really to stay invested in risk assets, as they have been since the beginning of this year. We do believe that the chances of a recession in the next 12 months are not high, and therefore investors should continue to enjoy good returns in risk assets and equity markets, in particular. However, at the same time, we must remember that we are in the mid to late cycle, and therefore we must also look for the risk of recession coming over the horizon at some point in time, or at least an end to the credit cycle. Therefore, I believe investors should be cautiously optimistic about conditions in financial markets.

John Robson
Chief Commercial Officer
Quantifeed
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The challenges that the industry are facing at the moment relate to the fact that customers really are demanding more, and they're interested in having greater transparency. They recognise the trend towards passive instruments, they want lower fees and they expect their financial services provider to give them better engagement through digital technology. So, I think while that's a challenge, I think it's also an opportunity because there are great opportunities to now build model portfolios

using a combination of both active managers, where those active managers can add value, and lower cost ETF products, and to deliver those model portfolios through really engaging technology solutions that provide the customer with his wealth management, anytime anywhere, in a really effortless manner.

David Lai
Partner & Co-Chief Investment Officer
Premia Partners
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Investors are facing a big challenge in the market, in the sense that, one thing is the recession fears in the market. Because the investor U-curve is indicating the US market, the economy, may be facing a very big challenge going forward. At the same time, the stock market has been quite stretched in terms of valuation. If they look at the risky side of assets, let's say the emerging market, they are also worrying about a trade war happening between the US and China. It seems to be a very lengthy issue, which cannot be fixed quickly at the moment. The third thing they are facing, the big challenge, is that negative-yielding debt is getting more and more. Right now, it accounts for around 30% of the total investment-grade fixed-income area. "What should the investor do in this market?" is a big question right now.

Simon Ree
Founder
Options Club
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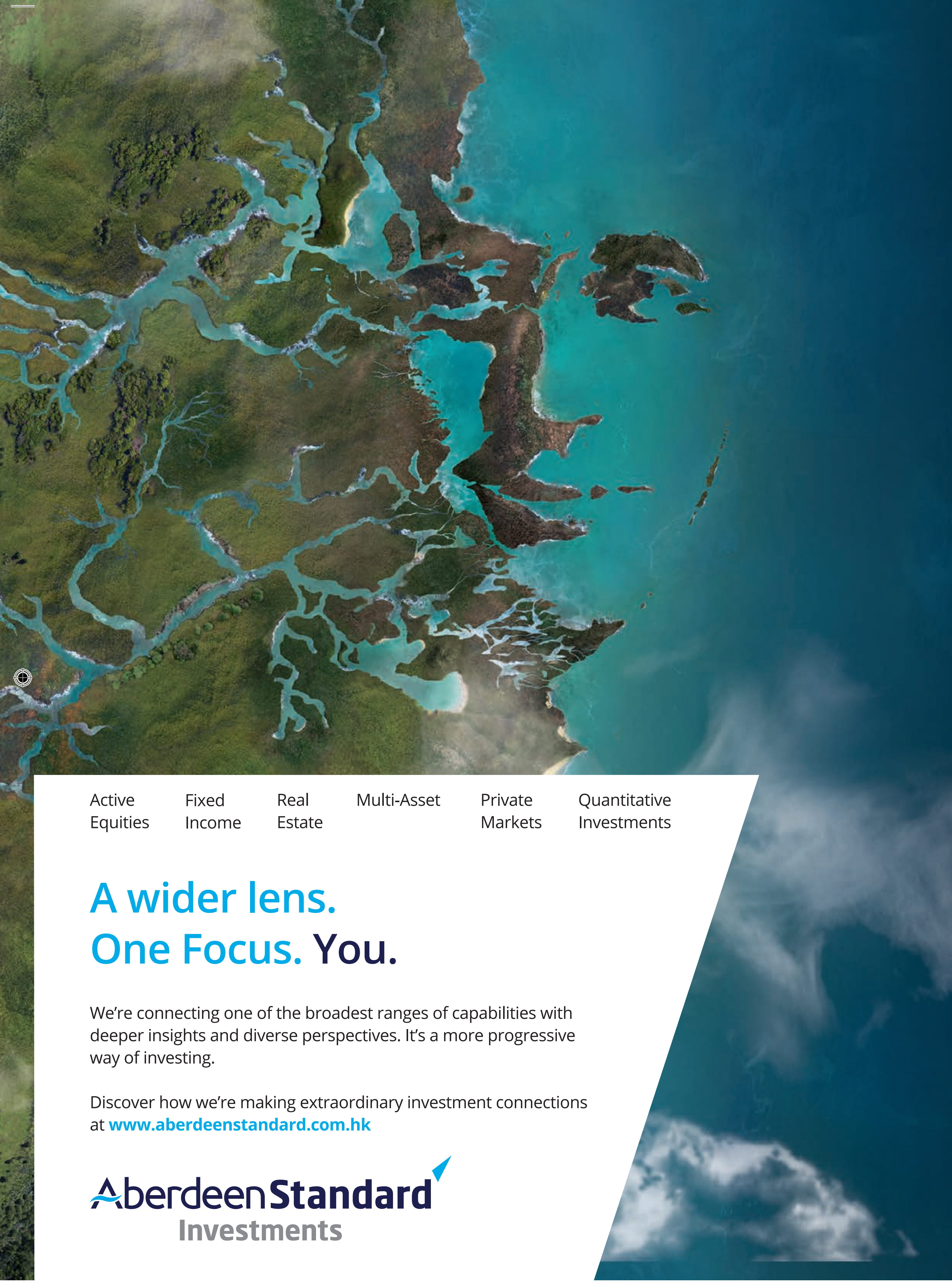
One of the big challenges facing the wealth management industry right now is that pretty much all our SIC classes look expensive. Bonds look expensive. There's been a lot talked about the huge amount of negative yield in debt. Equities looks expensive, certainly not cheap. Real estate in most parts of the world look expensive. And so if your investment strategy is pretty much reliant on asset prices going up, you could be in for a very few lean years.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Investment Solutions Forum 2019 - Hong Kong Exclusive Insights

At the Hubbis Investment Solutions Forum 2019 in Hong Kong on September 19th, we asked leading industry experts for their exclusive and incisive insights

We hope you enjoy this summary – it's packed with content from the forum. Click on the Speakers Name to view their BIO. You can also read the transcripts in this document - and click on Watch Video to view their exclusive interview.

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Who did we interview?

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Aberdeen Standard Investments

Stewart Aldcroft
Chairman
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Simon Ree
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Andrew Daniels
Senior Analyst, Equity Strategies, Manager Research
Morningstar

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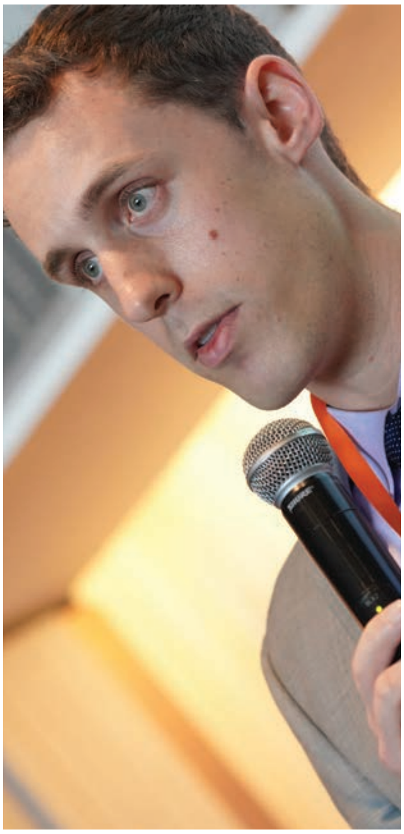

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Donald Amstad
Chief Operating Officer - APAC Distribution & Head of Investment Specialists - Asia Pacific
Aberdeen Standard Investments

What is the outlook for emerging market debt?
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The world is plagued by uncertainty at the moment. And the Central Bank response to that has been extraordinary. We've had over 50 central banks around the world cut interest rates this year, and the latest, last night, was the US federal reserve, which cut by another 25 basis points. The result of all this rate cutting is that there's over USD15 trillion worth of bonds around the world with negative yields. In fact, the only bond market left with any sort of yield is the US dollar bond market. Now, within the dollar bond market, the best value that we can find is in emerging market debt, particularly the bonds issued by companies. Emerging market companies have spent the last five years de-leveraging, whilst companies in America have spent the last five years re-leveraging. So, in terms of risk reward, we think that there's tremendous value in emerging market corporate bonds.

Where can clients/advisors find opportunities given current market environment?
Watch Video

In the current environment, investors are plagued by uncertainty. So, what we need to offer them is certainty, and one way to do that is by offering them fixed maturity products. When we look at the dollar bond market, which is the only bond market in the world left with any yield in it, the best risk-return is in short-dated bonds, because the yield curve is flat, and by lending money to emerging market companies who have been de-leveraging their balance sheets for the last five years, and whose spreads are trading at very wide and very attractive levels compared to US corporate bonds. So, a fixed maturity product that is full of short-dated dollar bonds issued by emerging market corporates, we think, is one answer for clients who are looking for certainty in this era of uncertainty.

What's the biggest opportunity in equities globally today?
Watch Video

We think that the biggest and best opportunity in equities globally today is the China A Share Market. It's the second biggest stock market in the world. It's dominated by retail investors and the market is, therefore, big, very liquid and very inefficient. What's happening in China is this switch away from quantity of growth and of financial assets to quality of growth and financial assets. The problem that China has is that they don't have a credit culture. They don't have an equity culture. What they need is to import it, and what they've done therefore is opened the doors to this enormous domestic capital market that's been closed to us for the last 40 years. Now, the price they're paying in opening their market up is that houses like Aberdeen Standard Investments and our friendly competitors can go in and we can buy the crown jewels of the Chinese financial system at bargain basement prices, because Chinese investors don't understand what quality is and we do. We


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are quality investors. Now, when Chinese people go shopping on the streets of Paris and New York and Hong Kong, you see them ladened down with shopping bags from the finest boutiques, with the finest shoes, the finest handbags, the finest watches, the finest red wines. When they invest, they don't yet understand what is financial quality. Now they're smart people, we all know that. And when they learn what is financial quality, quality stocks in China will become expensive, just like everything else they buy.

Stewart Aldcroft
Chairman
CitiTrust

Is Hong Kong an important wealth management centre in Asia? Will it continue to be?
Watch Video

Hong Kong is going to continue to be the leader of wealth management across the Asian region. It's the leader because it has more banks, more private banks, more customers, more wealth than any other single location, outside Japan, within the Asia Pacific region. It is able to use a broader array of products than even Japan can offer, and we have customers coming from across the region, and that includes China, to buy Hong Kong services. Clearly, China's wealth comes down very frequently to Hong Kong and that's a very important part of how Hong Kong will continue to sustain itself. The short-term uncertainty with a lot of the protests and things is just a short-term issue, we hope, and longer term and generally, we need to look three or five years forward, I think we'll see it as a bit of a blip, but not necessarily something that will damage the industry as a whole.

Harold Kim
Founder and
Chief Executive Officer
Neo Risk Investment Advisors

Is do-it-yourself wealth management a trend?
Watch Video

This morning we presented a short discussion about what we title "Do-It-Yourself Wealth Management," or, maybe more appropriately, Do-It-Yourself or Do-It-Yourself with a Little Bit of Help. Essentially, what we discussed was the fact that, with the emergence and prevalence of ETFs as an investing alternative to active managers, combined with the improvements in technology that allow online platforms to offer individual managed accounts to a broad group of investors, have really provided a very differentiated and unique alternative for investors, as compared to the current incumbent providers of asset allocation device, i.e., private banks and other wealth managers. With the online platforms and the availability of ETFs, you can set up broadly diversified, liquid global asset allocation exposures that will rival, or very often do better, than what you might get in the more traditional private bank or advisory space. And so, it's really up to the product providers to improve their advisory offering so that, at the asset class level, asset managers need to do better than the low-cost ETFs that are available. And at the portfolio allocation level, private banks need to do better than a standard 60/40 type of robo advisor allocation or something that might be a little bit more dynamic.

Simon Ree
Founder
Options Club

What is the Options Club?
Watch Video

Options Club: it's a group of people who want to learn how to trade options profitably in any market condition. So, I'm a big believer in teaching people how to take exposure to risk for short periods of time. The traditional way of investing is to have exposure to

quite a lot of risk pretty much all of the time. What we do in Options Club is teach people how to just take risks for very short periods of time and generate very substantial double digit, sometimes triple digit returns.

You recently wrote a book. What does it cover?
[Watch Video]

"Options Are Your Best Option" is the working title of the book. I strongly believe that options are the best option, the best investment vehicle for people, because they provide so much versatility and the ability to really tailor and manage risk in a very simple way. The reason I like options is because we can create wealth in any market condition, whether markets are rallying, falling, or flat-lining. And options, they're nowhere near as difficult as perhaps people like to make out. So, there are lots of books out there on how to trade options, but most of them are dull, and most of them are pretty difficult. What I'm doing with "Options Are Your Best Option" is writing a book that is both entertaining and easy. So, what I wanted to do is provide the content and the intelligence you'd get from a traditional textbook, but write it in a very enjoyable, entertaining manner.

Andrew Daniels
Senior Analyst, Equity Strategies, Manager Research
Morningstar

Has there been a significant growth in ESG funds?
[Watch Video]

Yes, there's been substantial growth in ESG assets. So, as of 2006, there were approximately USD3.8 trillion in total sustainability assets, but as of the end of 2018 that grew to almost USD31 trillion. So that's about 700% growth over that time frame, which is pretty remarkable in itself, but underlying that, retail investing is also becoming a growing percentage of that overall number. So, as of the end of 2012 that number was 11%, but that has grown to 25% at the end of 2018.

What is Greenwashing?
[Watch Video]

Greenwashing is essentially the false advertisement of ESG related mandates, whereby asset managers are falsely advertising their products as being ESG related, when in reality they're not. So, in terms of things that we can do to address the issue: one, promote transparency. And this is where regulation can play a role. We've seen this in places like France. And also, the Hong Kong regulator at the SFC has come out with guidelines to better characterise ESG funds as well.

Entela Benz-Saliasi
Associate Professor, Dept. of Finance
HKUST

What are the recent developments we have seen in ESG? What's next?
[Watch Video]

ESG has changed a lot, and that's because investors are demanding it more and more. But at the same time, companies are realising ESG can bring additional revenue. Now, ESG is moving from voluntary to mandatory, which is a good development, and ESG is becoming more focused, rather than just broad, theme-based approach.

Are there any specific initiatives we have seen in Hong Kong to increase the focus on ESG?
[Watch Video]

ESG in Hong Kong, I would say, is very important. Number one, Hong Kong is a very big climate risk; 35% of properties in Hong

Kong are at very high climate risk, but little is known about that. Number two, the social aspect in Hong Kong is very big aging population is something to be tackled. So, if we can develop, or can tackle ENS in Hong Kong with green bonds as our social bond, that will be a very good development for Hong Kong.

Simon Godfrey
Senior Vice President, Head of Products
EFG Bank

What must be considered today when investing in Emerging Markets?
Watch Video

When you are investing in emerging markets, we have to be careful. It's a very broad spectrum of investment opportunities; we have some very high growth countries, we have medium income countries, we have low income countries, all at different stages of development. When investing in emerging markets, it's important to get real expertise to be able to look through all of those different opportunities to understand that global factors do play a part, but emerging markets are increasingly having a momentum of their own. And also, that momentum is increasingly driven by the elephant in the room, which is China. So, when we look at emerging markets, this is really a changing opportunity set, but something which we obviously believe will have a lot of prospects for the years to come.

John Robson
Chief Commercial Officer
Quantifeed

Which wealth management firms will thrive in the future? Who will be disintermediated?
Watch Video

The financial organisations that are responding to customers' expectations of providing a really effortless digital experience, as well as having the human advice component, will continue to thrive - particularly those larger organisations that already have the trust of their customers. I think the ones that will be challenged are people who are laggards in this move. I think even the largest organisations are recognising there's a threat coming from big-tech; if they can keep up with the big-tech opportunity they will continue to be relevant to their customers, and anyone who doesn't deliver technology solutions to the customers in a way and form that the customers want to receive the services in, they're going to really be challenged in the future market.

How is the role of technology and digital evolving in wealth management?
Watch Video

One of the big opportunities that is now emerging, aside from the fact that many financial institutions want to be offering a direct-to-consumer product, there's also an emerging opportunity to enhance the activities of an advisor at private banks through digital technology. In particular, I think the private banks have recognised that for years they've been pushing away customers that don't reach their minimum threshold for having a private banking account, even sometimes culling and

jettisoning some customers, and they're recognising that, by using technology, there's an opportunity to embrace these customers, which are often the pipeline to customers of the future.

David Lai
Partner & Co-Chief Investment Officer
Premia Partners

Can you tell me details on the Premia MSCI Vietnam ETF you recently launched?
Watch Video

We have recently launched two new products. One is tracking the Vietnam one (MSCI Vietnam Index); another one is tracking the US Treasury Floating Rate Note. For the Vietnam one, the stock code is 2804, so everyone can get it in the Hong Kong stock exchange. The interesting thing about Vietnam is that it is benefiting from the U.S. and China trade war. So, for one, external trade has been increasing significantly in the Vietnamese market and secondly, a lot of people may be forgetting that Vietnam is actually a very big market for domestic consumption. They have close to 100 million people and they are also stepping into the middle class. So, we can see enormous opportunity in the Vietnam market. Other than that, the capital market itself is evolving, and also is developing into an emerging market status (which will actualise) in the next year or potentially the year after. So, there are a few catalysts going on in the Vietnam market. So for a lot of people, when they are worrying about a US-China trade war, thinking about what should they do, I think putting money into the Vietnam market is one of the potential choices.

Can you tell me details on the Premia US Treasury Floating Rate ETF you recently launched?
Watch Video

Another fund that we launched newly is that focusing on the US Treasury Floating Rate Note. The stock code is 3077 for the Hong

Kong dollar trading counter. If you are more into the US trading counter, the code is 9077. It's listed in the Hong Kong stock exchange, and is very easy for a lot of investors to trade. The good thing about launching the US Treasury Floating Rate Note in Hong Kong is that you don't have to pay the withholding tax that can account for around 30% for a lot of investors if they buy strictly into the US-listed ETF. Then for a lot of people, when they think about the recession rates and also the US.-China trade war, if they want to park their money, what should they do? So, the US Treasury Floating Rate Note is now giving you more than 2% in the market. That is a very decent return. If you think about that, if (investors) put their money into the custodian bank, that may only give you around 0.25%, so that is a big difference for a lot of investors, and they want to earn some kind of interest, so the US. Treasury Floating Rate, which notes zero credit risk, very minimal duration risk, and also no lockup period; is the perfect choice for a lot of investors.

Ryan Lemand
Senior Executive Officer, ADSI & Global Head of Wealth and Asset Management, ADS Securities
ADS Investment Solutions

What are the opportunities for Asian based clients to invest in the GCC today?
Watch Video

Today if we look at the whole world, valuations are really at the high level in developed markets. So, people are looking for opportunities to invest, they're looking for yield, they're looking for return. One of these opportunities, we think, is present in the GCC countries. It is in new emerging markets; the countries there have been reclassified recently to emerging markets, so they are parts of MSCI and FTSE emerging market indices. However, investors have not yet come in massively into these countries. So, risk premiums are still quite high. These countries have very low debt levels, they're very rich, their debt-to-GDP is very low, and their stock markets are very low in valuation. So, it makes lots of sense for people who look at emerging markets to consider this market that has been ignored until now.

Are there any specific countries or sectors in GCC that offer the best values for investors today?
Watch Video

Today, there are three stock markets that are, to a certain extent, quite liquid. They just moved into emerging markets, so they are benefiting from foreign investment inflows as they are part of the inclusion. And these countries are the United Arab Emirates (the UAE), Saudi Arabia, and Kuwait. And we have seen some very good rallies on the stock markets just on the back of very passive flows coming in on the back of the stock market's inclusions. Now, with regards to the sectors, opportunities are, to certain extent, limited. So, you have banks, you have financials, you have consumer companies, you have some of the real estate companies, you have telecom companies, and these companies pay dividends that go from 3% to 7%. So, it's pretty much similar to a fixed income investment disguised as an equity investment. ■

Opportunities and Challenges for Asia's Wealth Management Community

A panel of experts at the Hubbis Investment Solutions Forum reviewed the state of the wealth management industry to highlight what value proposition might be required to survive and prosper in the future. They debated whether the cost and revenue pressures are of such a scale as to threaten the survival of some of the key players, and whether the growth of private wealth in Asia will propel the market, or if only the biggest and best can survive. And can the smaller, adaptable, nimble, newer competitors can forge a market presence and prosper.

These were the topics discussed:

- *What's your USP?*
- *What have you got that means you will still be here in five years?*
- *How must you refine and redefine your value proposition today?*
- *Are you nimble, responsive and adaptive?*
- *What's the advantage and disadvantage to pure-play firms vs universal banks?*
- *What is the client expecting from you today?*
- *Where is growth coming from over the next five years? Bigger share of wallet? Lending? Next-gen leads? Organic vs acquisition vs partnership?*
- *Biggest opportunities for the next three years?*
- *Biggest challenges for the next three years?*

PANEL SPEAKERS

- **Richard Straus**, Senior Managing Director, Head of Private Banking, EFG Bank
- **Jean-Louis Nakamura**, Chief Investment Officer, Asia Pacific - Chief Executive Officer, Hong Kong, Lombard Odier
- **Silvio Struebi**, Partner, Simon-Kucher & Partners
- **Stewart Aldcroft**, Chairman, CitiTrust
- **Michael Benz**, Senior Advisor, Synpulse

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hubbis

THE KEY TAKEAWAYS

The smart monetisation of opportunities is vital

Costs can be managed, but revenues are the key to any organisation's success. To achieve in the future world of wealth management, banks and other firms must reinforce their value proposition and price their services accordingly.

Adapt to the future environment

New competitors are coming in to grab market share, focusing on the customers of tomorrow, especially the younger generations who are inheriting or making the wealth of tomorrow. The needs of the millennials certainly need addressing.

Greater acceptance of the fee-based model

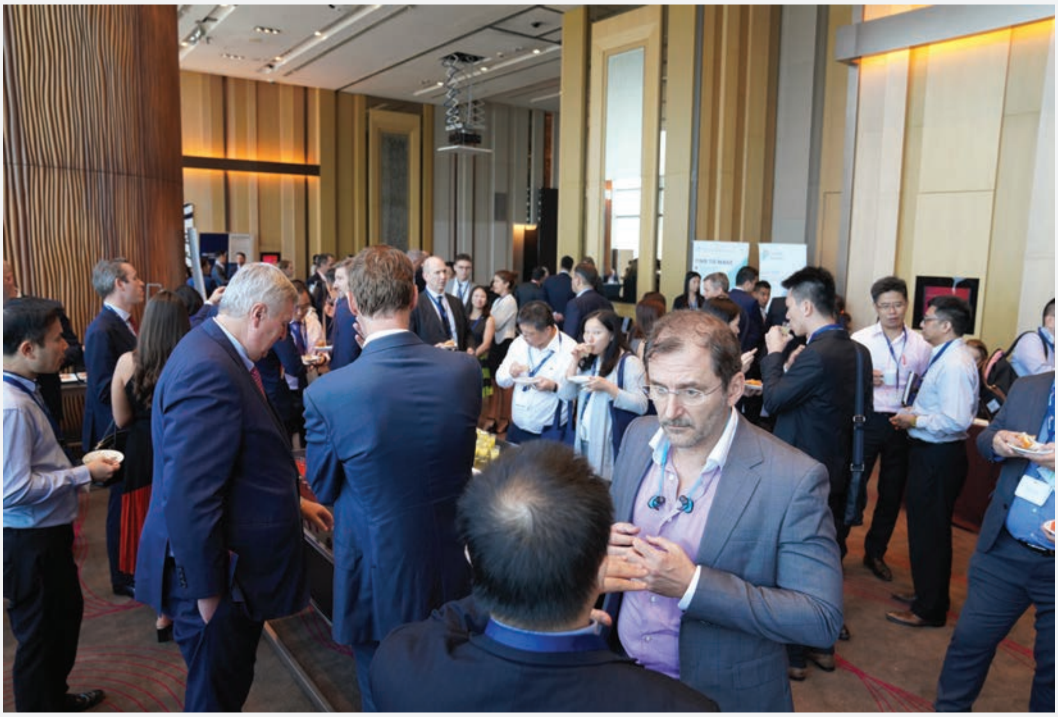
An expert noted that as more and more of the 2nd and 3rd generations control the wealth of Asia, these younger and often formally educated people are more focused on professionalisation of their wealth, and therefore more accepting of the value of fee-based advisory that frees them up from day to day decisions.

Make the unpredictable predictable

A core challenge today compared to some years ago is to convert revenues from ad hoc, execution or product-driven revenues to advisory and discretionary income, which is both more enduring and predictable.

Delivery is another key to success

Clients used to value seamless execution when it first emerged, but today price sensitivity rules because execution is commoditised. Accordingly, firms must focus on great products, good ideas, but the real challenge today is how to convey these products and these ideas to the clients in a way that they want.



Creating the right environment for success

Some of the biggest banks have the scale to weather the storms and to endure lower fees by retaining high volume, but others have to seek and express their propositions, for example by being highly entrepreneurial, and allowing their advisers to engage rapidly and proactively with their clients.

Lower returns mean more advice required

As equity market returns drop, and risk-free debt yields disintegrate, there is a greater need for advice and ideas. But those ideas are best distinguished by tailored delivery.

Keeping it personal

There was a general feeling amongst panellists that robo-advisory can serve a key purpose to expand delivery to a wider mass affluent market and also to lower wealth HNWIs, where costs for delivery of personalised solutions are too high. However, there was also a widespread view that clients in Asia will continue to want human interaction with advisers.

Regulators in Asia take a pragmatic view

Regulators in Asia are tending still to take a pragmatic view of the need to help develop their wealth management industries, and therefore show no immediate signs of forcing banks to end up-front or even trailer fees. Nevertheless, banks should take a proactive approach to migrate revenues from such a reliance on transactions.

Hong Kong will continue to thrive

Although Singapore is grabbing more headlines for its appeal as a wealth management centre, especially their family office incentives, Hong Kong has remained at the cutting edge of the industry, and enjoy smart, forward-thinking regulators.

STEWART ALDCROFT
CitiTrust

AN EXPERT BEGAN BY EXPLAINING THAT A KEY CHALLENGE FOR the wealth management sector is the monetisation of opportunities. Costs, he said, must be kept under control, but revenues must also be enhanced, and firms must react to the wave of competitors coming into the market.

"These new entrants," he remarked, "might grab market share, they might change the overall perception of the customers, especially the younger generations who are inheriting or making the wealth of tomorrow. The needs of the millennials certainly need addressing."

Another guest reported that the big challenge today compared to some years ago is to convert revenues from ad hoc, execution or product-driven revenues to advisory and discretionary income, which is both more enduring and predictable.

"Clients used to value seamless execution," he noted, "but are more likely to challenge the price today. And plenty of people can come up with great products, good ideas, but the real challenge today is how to convey these products and these ideas to the clients in a way that they want. It is a challenge and great opportunity for private banks today. Digital channels for the creation of a positive experience of clients are of increasing value and translate to client loyalty."

Another attendee highlighted how, although his firm is relatively small in Asia, the organisation thrives because it is highly entrepreneurial, and

MICHAEL BENZ
Synpulse

RICHARD STRAUS
EFG Bank

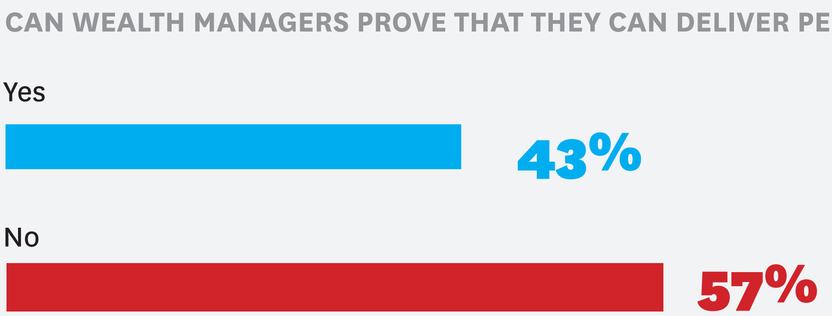
enjoys a flat structure that allows the RMs to act rapidly and proactively for their clients.

"I think the challenges are not fundamentally different from private banks," came another opinion. "There is more intense pressure on costs and pricing and the proof of value-added to your clients." He advised that quality, dispassionate, emotion-free advice is essential for clients, and the ability to stop clients taking certain actions, or to encourage them to make certain changes are both core to the value proposition. He said that clients must eliminate the 'noise, and see the complete picture, and then take a disciplined approach, rather than simply reacting to each and every global or local event.

A panel member cast his experienced eye back over three decades of wealth management in Hong Kong. "First, we know most people have a lot more wealth now than they used to have," he observed. "So, they need advice, and as interest rates have come down from double-digit to nearly nothing and even currency trading is less appealing than before, people need more and more quality advice."

"Are fees for products still too high?" a panel member asked. "In Asia, our clients have always been much more price-sensitive and much closer to investments than probably in other countries," came a reply. "But I think the key to winning here for wealth management firms in the future will be delivering positive investment ideas. But these ideas must be extremely personalised, because each investor wants to relate to them emotionally. To achieve this personalisation, banks must tap into the gigantic pool of data they have in-house on clients, then use this data and personalise the investment ideas to make them appear truly relevant for the individual investor. Secondly, they must deliver them through channels of choice for the customer."

SILVIO STRUEBI
Simon-Kucher & Partners



Source: Investment Solutions Forum 2019 - Hong Kong

A guest opined that wealth management firms should not feat robo-advisory. " Robo-advisers are not providing the level of information and advice that the client wants," he commented.

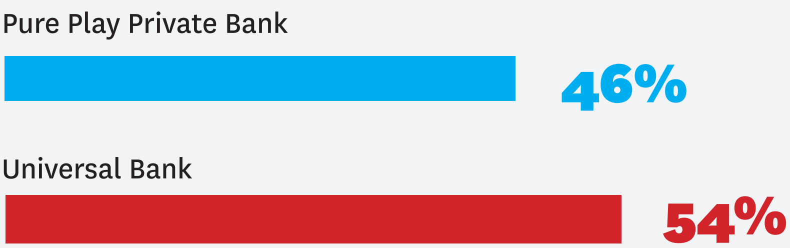
"Most people in the Asian region want to have some individual response, they want to have face to face meetings. Robo-advice only truly works where the whole investment business is treated as a commodity. In Asia, it is not commodity yet and I think there is too much time and energy spent worrying about how robo-advisory businesses will compete against the existing business model. It is a waste of time because the robo business is a failure in this part of the world."

A slightly different perspective came from an expert who noted that there are many more clients holding less than USD3 million of assets than more than USD3 million. "I think here we can serve these clients in a very efficient way, so actually robo-advisory solutions can be a good idea. The very high-value services are being provided to all clients at the moment, but this will have to change due to costs and economics, so for me, robo-advisory will soon be part of the value chain of a wealth manager here. We need to find ways to package this into the overall value proposition in a smart way because then you can add value. Remember, not every client wants to pay high fees, so we have to have a very positive solution."

A banker reviewed some of the key changes they are making to their business model, highlighting how they have been revamping the investment advisory business towards portfolio advisory, at the same time upgrading the talent on that front substantially. Another key area has been tailored credit solutions for UHNWIs that has been rolled out globally and to good effective for these types of clients. And the bank has been developing its asset management model in Asia, leveraging its model and success in Europe and elsewhere.

JEAN-LOUIS NAKAMURA
Lombard Odier

WHICH MODEL IS MORE ATTRACTIVE TO HNW CLIENTS?



Source: Investment Solutions Forum 2019 - Hong Kong

"In all these areas," he noted, "you can see we are moving away from the transactional business, which is increasingly price sensitive and therefore it is ever tougher for the smaller to medium sized players to compete with the global majors and their vast platforms. So, in short, we focus more on the value-added services, the personal service, the solutions that are designed and tailored around the client situations."

A guest offered another viewpoint. "Many of the large private banks have rolled out fantastic technology-supported, fee-based advisory solutions, but let's think about how successful they are. Well, they are not, because the investment experience delivered through such fee-based advisory solutions is not perceived as value-added by clients, so they don't want to pay the price for that. I believe the private banks will be forced to massively improve the client investment experience and will have to start to clearly differentiate the true execution business from the advisory business and price accurately. If not, revenues will be badly challenged."

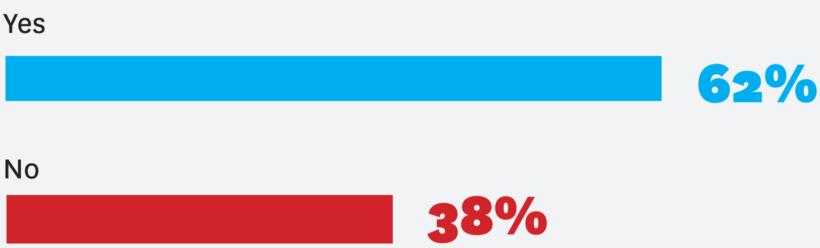
Another expert said he totally disagreed with this view. "Only when regulators enforce no frontend loads on funds, no trail commissions on funds, will the industry change. We are not going to see banks change their revenue models, the drug of commissions unless forced to do so. Then there will be a period of maybe two or three years of adjustment and the market will then probably get back to probably a normal level where clients will accept that they need to pay a fee to get advice. Now, that's of course going to impact directly on the bank's bottom-line, but the whole industry has argued against a commission ban within the Asia region and the SFC in Hong Kong, for example, has accepted that, and in Singapore the Monetary Authority has accepted that on the basis we are still in a very early stage of development for the type of services that wealth management provides. Of course, there is a lot of competition against that."

An expert agreed that in Asia, transaction revenues still represent at least 50% of revenues for the private banks but said the model can change to one such as his bank has achieved, whereby advisory and discretionary fees represent the majority of revenues.

AN EXPERT AGREED THAT IN ASIA, TRANSACTION REVENUES STILL REPRESENT AT LEAST 50% OF REVENUES FOR THE PRIVATE BANKS BUT SAID THE MODEL CAN CHANGE TO ONE SUCH AS HIS BANK HAS ACHIEVED, WHEREBY ADVISORY AND DISCRETIONARY FEES REPRESENT THE MAJORITY OF REVENUES.

"I have been in the region for more than 23 years," said one guest, "and when I first started in Singapore in the mid-1990s there was no way anyone would pay a fee. And fast forwarding to

DO YOU THINK HONG KONG IS AT SERIOUS RISK OF LOSING ALL MOMENTUM AS A CREDIBLE INTERNATIONAL WEALTH MANAGEMENT CENTRE?



Source: Investment Solutions Forum 2019 - Hong Kong

today, many clients are now actually asking about these advisory and other solutions. Most of the clients that we have dealt with in Asia are first generation entrepreneurs, the ones that made the money, they made the decisions, they are very hands-on. But there are more and more large families that are now in their second or third generation, the generation now who have their own business, their own lifestyles, the families are maybe not as close as they were, they want a solution that frees them up from every single decision. Moreover, a lot of the second and third generation has been educated around the world, so they have seen these models work elsewhere. Accordingly, we actually have clients asking us about what other types of fee structures we offer."

The discussion shifted to the roles of Hong Kong and Singapore, with one panel member offering a persuasive view that Hong Kong has led the way in terms of financial sector regulation and continues to do so. Hong Kong, he said, is diverse in terms of its financial markets and entirely global

"HONG KONG HAS A VERY VALID PART TO PLAY AND WILL CONTINUE TO LEAD THE REGION, NOT BE A FOLLOWER IN THE REGION."

in terms of clientele, as well as enjoying 1.2 billion Chines on its borders. "Hong Kong has a very valid part to play and will continue to lead the region, not be a follower in the region," he concluded. "It will lead the region in terms of how wealth management, private banking and investment management is delivered to the customer." ■

Positioning the Wealth Management Machinery and Investment Engines for the Future

A wide-ranging discussion took place during the second panel of the Hubbis Investment Solutions Forum, with an eclectic group of experts offering different opinions on the future of wealth management in terms of its future products, services, business model and profitability, including assessing the impact of the ongoing battle between active and passive strategies, and the role of digital in promoting potentially improved investment opportunities, strategies and enhanced user interface.

These were the topics discussed:

- *The revenue squeeze is on. Where will revenue come from in the future?*
- *Who will thrive in the future? Who will be disintermediated?*
- *Will traditional PBs be squeezed in terms of managing liquid (global equity and bond) portfolios due to technology-driven developments?*
- *Can PBs remain relevant by focusing on areas that aren't easily replaced by technology—illiquid and privates, cheap leverage, better portfolio advice?*
- *Do we need to engage more passive products & ETFs?*
- *What's the role of technology and digital evolving?*
- *How do you prove you are delivering performance?*
- *How should you balance revenue with suitability and the client's best interest?*
- *Can digital add greater value to traditional advisory?*

PANEL SPEAKERS

- **John Robson**, Chief Commercial Officer, Quantifeed
- **Harold Kim**, Founder and Chief Executive Officer, Neo Risk Investment Advisors
- **Tony Wong**, Head of Intermediary Sales, CSOP Asset Management
- **Tobias Bland**, Chief Executive Officer, Enhanced Investment Products
- **Terence Goh**, Co-Founder & Chief Executive Officer, Bam Fintech
- **Simon Ree**, Founder, Options Club

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THE KEY TAKEAWAYS

ETF expansion lags in Asia, more targeted products required

Although Asia is experiencing robust growth in ETF activity and diversity, penetration is not as advanced as in the US or Europe. Globally, ETFs plus other passive instruments have recently surpassed active management funds, but in Asia, there needs to be more of the right products and in the right niches.

Structured products maintain their popularity, but smart investors required

The structured note market continues to be a very active area for private banks, offering as it does a lot of opportunities for investors to take exposures that they might otherwise be unable to get. However, SPs are best suited to the portfolios of more sophisticated HNW investors who more fully understand the complexities and risks of the products, especially in more difficult market conditions, as now.

Can digital platforms and robo-advisory deliver what on the promises?

A FinTech expert stated that the wealth management industry in Asia is still at the very beginning of the journey towards digital wealth management, with proof of concept coming gradually as some of the region's leading banks invest in and begin delivering superior customer experience.

Here come the robo-analysts

While the robo-advisor is aiming to enhance portfolio allocation and wealth management democratisation, the robo-analyst is a newer offering, using machines to generate research, but smarter, faster and cheaper than any of its human counterparts.

So, what happens to the private banks, are they digitally disintermediated?

The question extended naturally to the role of the private banks amidst digital disintermediation and falling fees. First, they must become more sophisticated in terms of digital delivery and also internal efficiencies. Second, they must improve their active management and product/portfolio advisory expertise. Third, they must work out how to offer optimal hybrid solutions, combining the best that digital and human skills can bring to the table for HNWIs.

Still room for hands-on advice - hiring your personal investment "trainer"

Self-directed investment, the capability of which is clearly being enhanced by digitalisation, is not the be-all and end-all for HNWIs, as, during times of market stress, those largely self-directed investors often let their emotions get the better of their strategies, with the advisers operating effectively as a personal financial trainer, their subjects getting or remaining fitter than they would, if left on their own.

Tangible solutions and valuable advice mean real fees

An expert observed that private banks can continue to levy fees and clients will pay up for genuinely good and valuable advice, both on products and solutions, and also on asset and estate planning.

Will the e-banks win through in Asia?

There was some divergence of opinion on whether the new digital banks, such as those Hong Kong has opened the doors to, will pull customers away from their favoured brand name local banks. Some felt that it will be a long time before customers trust them sufficiently. Others felt that they will win through in the region, but it will take time, partly because regulators will also control their pace of development.

Traditions are valuable but don't rest on your laurels

Traditional private banks will clearly be squeezed in terms of managing liquid portfolios due to technology-driven developments, so they will need to be smart and nifty to remain relevant by focusing on areas that aren't easily replaced by technology - for example illiquid and private assets, leverage, better portfolio advice, optimised estate planning and so forth. Otherwise, they will be rowing against the current and at serious risk of going backwards.

HAROLD KIM
Neo Risk Investment Advisors

STARTING WITH A FOCUS ON ETFS, a guest remarked how it is nowadays very difficult to sell ETFs in Hong Kong under the present regime. "The overall ETF growth rate is still around 30% a year, yet in Hong Kong, we have declining assets," he reported. Another expert agreed, voicing concerns that the key is the right product for the right markets, in which case investors are far less concerned about fees.

Another expert reported that ETFs unquestionably are growing exponentially not just in Asia, but globally. "ETFs plus other passive instruments have recently surpassed active management funds," he explained, "and the onus is on active managers to show that they are really better than ETFs, but most academic research has shown that ETFs benchmarks outperform the majority of active managers. But I agree you need the right products and in the right niches, and we do see that in Hong Kong from certain ETF providers. We think ETFs are going to continue to grow and that will put pressure on the private bank revenue model, but as to the providers, only the smarter ones can go up against the big guys, and they need a pretty unique proposition."

Structured solutions still enjoy robust demand

Another guest turned to the structured note market, noting that this continues to be a very active area for private banks, offering as it does a lot of opportunities for investors to

JOHN ROBSON
Quantifeed

SIMON REE
Options Club

take on exposures that they might otherwise be unable to get. "Structured notes are not for everyone," he commented, "but have a key place in the portfolios of people who understand the complexities of the product."

A panel member agreed that since around the early 2000s when they first appeared, private banks saw revenue opportunity, as selling SPs is more profitable than many other plain vanilla products, and the design of products can include some very marketing friendly features. "The early years were easy and almost everyone made money from them, but structured products are like medicines," he said, "and you really need sound advice to know what risks you are buying. In the right markets, with the right features and design, they can be a very reasonable risk alternative."

A panel member migrated the discussion towards digital platforms, noting how advanced, for example, the Charles Schwab offering is today, and questioning whether the competition in Asia is developing along the right lines to cope with this and other types of challenges.

TONY WONG
CSOP Asset Management

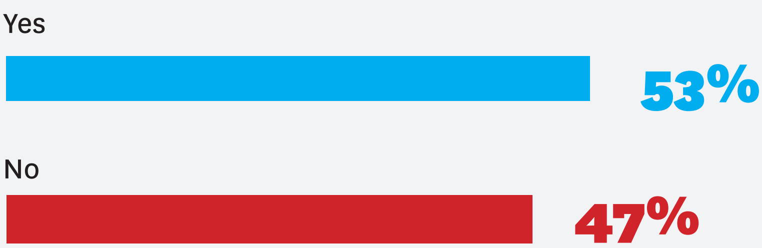
Rising to the challenges?

"We are at the very beginning for the whole journey towards digital wealth management in Asia," came the reply from another guest, "and with regard to the digital offering and robo-advisory, we are now starting to see Asian banks investing in delivering dramatically superior customer experiences. Yes, there are also laggards, but I think we will see quite a substantial blossoming of the digital offerings in all markets of Asia and you will see a strong take-up of those offerings."

Another guest highlighted how the robo-advisor covers portfolio allocation, while a robo-analyst, on the other hand, is a newer offering, using machines to generate research. "Robo-analysis," he said, "is much like what an equity or FX analyst does, only that it is smarter, faster and cheaper than any of its human counterparts."

He explained further that for private banks dealing with the self-directed clients, most of the current solutions in terms of advisory are still very

DO YOU USE A DIGITAL WEALTH PLATFORM?



Source: Investment Solutions Forum 2019 - Hong Kong

much human-driven, still very much led by RMs in terms of trying to tell them what to buy and sell. "What we are doing is really digitise the financial advisory process on the self-directed investment side, so by using machines to generate research we can now enable clients to receive advice across the products, be those equities, indices, FX or whatever. This is the next frontier, the robo-analyst rather than the robo-advisor."

"Can digital add greater value to traditional advisory?" he pondered. "Yes, in a B2B2C model, the market analytics platform can become the engine or brains behind a Virtual Assistant, making it capable of providing multi-asset class advisory across 50,000 trading instruments, whereas a human could at best advise on perhaps 50 instruments. And for example, the Structured Products segment can help private bank RMs drive more Structured Products rollovers, select optimum strikes and knock-out levels leading to more revenue and more satisfied customers."

The question extended naturally to the role of the private banks amidst digital disintermediation. "15 to 20 years ago," said an expert, "there were nice 1% or more commission to trade liquid financial assets, and still today they are trying to charge quite a large brokerage commissions, for example I met with a family office recently and they were getting charged 50 basis points for plain vanilla equity trades and said they were being offered a discount by the bank. They were shocked when I told them you could trade for literally 1 basis point on an online platform."

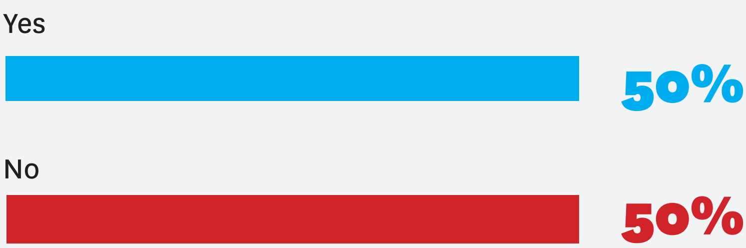
TERENCE GOH
Bam Fintech

Watch out…

"So," he continued, "the challenge to the private banker then is either they are going to have to charge 20-40 times the brokerage commission of an online broker, in which case the advice must really be outstanding, truly worth it in terms of returns, or if the advice is not so good, those assets will move to more efficient trading systems."

In that scenario, he extrapolated that the private banks will then have to decide if they invest more in terms of capability to improve advisory and delivery to retain those liquid assets. "Not surprisingly therefore," he explained, "you find

WOULD YOU USE A ROBO ADVISER?



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that most private banks focus on selling high margin private products and rather neglecting quality advisory advice on the liquid portfolio, which risks them losing those assets, especially as clients see that with ETFs, passive strategies and technology they could probably do it all themselves and save quite a lot in terms of fees."

"Yes," another guest noted, "for a large-cap US equity play you might pay 50 basis points for an active manager, or you pay about 4 basis points for the S&P Tracker. So the private banks risk losing assets to online platforms, or to robo-advisories. There are 4000 plus ETFs out there now, so pretty much any asset class that you want to buy you can slice and dice and find an ETF for it, and if it is a common exposure like US large-cap, you should pay almost nothing for the management fee. Perhaps for other assets or strategies like emerging market bonds, emerging market equities, then you will start to see ETF fees that are higher, but that will be 30-50 basis points, not 1% or 2%."

TOBIAS BLAND
Enhanced Investment Products

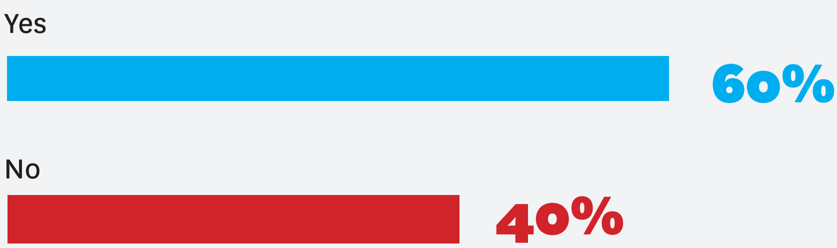
Self-investing can lead investors in the wrong directions

A different perspective came from another guest who cautioned that self-directed can lead investors to difficulties if, during times of market stress, those largely self-directed investors let their emotions get the better of their strategy.

"When the emotional part of the brain takes control," he warned, "you tend to make poor decisions and anybody who has been in the financial crisis during the bear market knows that a good adviser is part grief counsellor, part investment expert, basically spending a lot of time talking to people out of doing dumb things. We all know what it takes for us to live a healthy life, but very few of us do that consistently. However, add in a personal trainer or a coach to the mix, and you get much better results. I think investing is very similar."

He added that a lot of what the private banks offer is commoditised, but they still have a role for the ultra-HNWIs in providing access and helping with real solutions that add true value, perhaps a structured credit solution, some lending work,

GIVEN YOUR RELATIONSHIP WITH YOUR EXISTING BANK IN HONG KONG? WILL YOU START A NEW VIRTUAL BANK ACCOUNT WITHIN THE NEXT YEAR?



Source: Investment Solutions Forum 2019 - Hong Kong

estate planning work. "Clients will pay if you can really help them out with something that is technical or difficult."

A guest summed up the discussion by commenting: "The reality is that robo-advisory is here to stay, ETFs are here to stay, the top-down approach is reasonably diverse today, fees are going to come down even further, and a lot of banks are going to go out of business, especially your big commercial banks, so I will be very surprised if some of the lesser global bank names are going to be around in 10 years' time at all. The virtual banks popping up in Asia and across Europe are more nails in the coffins for the existing legacy banks, along with the fact that the robo-advisor, speed to market, cost of doing business is going to come down, so unless you have technology, you are suffering."

Asia's banks hold firm…for the time being

The discussion drew towards a close with another technology expert who felt that in the Asia region itself, brand name local and regional banks can retain their clients but must invest in technology to do so. "It will be tougher out here for the B2C companies to survive as we start to see the major banking corporations lift their offerings, so for example here in Singapore, customers have their brand name bank accounts and the idea of taking your money out of one of these trusted organisations, moving to some upstart is a big challenge, and honestly I don't foresee that happening."

The virtual banks, for example, are only just stepping out and will not engage with wealth management and some other areas for some time, partly because of capabilities and also due to satisfying the regulators, step by step, which will take time.

The typical big online brokerage platforms are more of appeal to a certain class of investors who are already highly familiar with financial markets, but the average bank customer is not yet moving from his brand name bank, especially as they improve their digital offerings, he added. Another way to see robo-advice is as digital wealth management technology, he continued, and there are hybrid models emerging, and banks are increasingly focusing on using technology to offer a wealth advisory service that was previously only for the very wealthy clients. "There are huge advice and service gaps out there to be filled," he concluded.

Rowing against the tide?

The final word went to a guest who pondered who will thrive in the future, and who will be disintermediated. "The commission-free brokerage model pioneered by some firms will thrive in the future, as they are transforming brokerage into a subscription model," he said. "Traditional private banks will be squeezed in terms of managing liquid (global equity and bond) portfolios due to technology-driven developments. They will need to remain relevant by focusing on areas that aren't easily replaced by technology - illiquid and private assets, cheap leverage, and better (if that is indeed possible) portfolio advice. Otherwise, they will risk being disintermediated. ■

Younger Generations of HNWI Clients – Investment Trends and Outlook

What does Millennial mean when it comes to wealth management, for those who are inheriting Asia's vast private wealth and those who are now making the region's future wealth? Whichever route they arrive at their huge wealth, the private banking and wealth management community are concentrating increasing efforts at keeping them within their folds as clients or bringing them to their firms as new customers. How is the wealth products, services and advisory industry adapting their strategies, and their teams, to cope?

These were the topics discussed:

- *How do you deal with the younger generation?*
- *What is their attitude towards investing?*
- *What do the younger generations expect from you?*
- *What are banks doing to create a holistic and meaningful user experience?*
- *Beyond investments, what other engagement do you need to provide?*
- *Has client demand for Impact investing, SRI, ESG increased?*
- *Do you provide these solutions in-house?*
- *Is impact investing an add-on or a core investment?*
- *Which areas would you invest in or avoid?*
- *What's the next phase of impact investing?*
- *Assessing products: the good, the bad and the ugly*
- *Does ESG deliver superior returns?*
- *Can these offerings be bespoke to deepen relationships with clients?*

PANEL SPEAKERS

- **Janet Li**, Asia Wealth Business Leader. Mercer
- **Aleksey Mironenko**, Partner & Chief Distribution Officer, Premia Partners
- **Entela Benz-Saliasi**, Associate Professor, Dept. of Finance, HKUST
- **Sunita Subramoniam**, Vice President, Product Strategist - iShares, BlackRock

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THE KEY TAKEAWAYS

Hold on to the family generations

As there is evidence that the second and younger generations of Asia's HNWI families are far less loyal to their private banks and wealth management firms than the founder generations, it is vital to reach out to the future holders of Asia's wealth. It is vital, therefore, for the providers of the products, services and advice to adapt their strategies, including their modes of communication.

ESG principles rise in importance for younger investors

Younger investors might include the second generations, many of whom might already be in their 50s or 60s in Asia, as well as the Millennials. Throughout these categories, there is a rising focus on ESG principles for investment.

Data and information are the keys to unlock the ESG market

There is a growing availability of ratings of funds and fund managers as well as of companies in terms of various categorises of criteria to judge both performance and the application of ESG-type principles.

Tomorrow's wealthy are looking at tomorrow

The next generations are not just looking at yield, but they are also looking at customer experience apart from investment, and at areas such as ESG, so qualitative research that is widely available is vital to help them formulate their portfolios.

Asia's family offices also driving change

The same is true for family offices in Asia, which are also going through a generational metamorphosis, with investment control shifting to younger family members who are looking further ahead and are also more determined to take a more ethical approach.

Transparency is vital

Transparency is essential, with rankings of ESG characteristics and scores on ETFs helping the asset management and investor communities, but the global regulatory community must also work to demand greater information and transparency from the companies in their capital markets.

Asia lags the global ESG trends

There is widespread availability of ethical and ESG-type investments in Europe and to a slightly lesser extent in the US, but there is far less progress in Asia, where, for example, there is not a single Asian equity ESG product in ETF form.

Communicate the advantages

To address this lethargy in Asia, there needs to be more data on returns - ESG strategies have largely outperformed the indices in the past 5 to 10 years - and on the interplay with risks and volatility. ESG principles if well applied, can help investors avoid one-off events, for example the emissions crisis at Volkswagen, or other environmental-type crises. All these criteria add up to a compelling reason to focus on ESG.

ENTELA BENZ-SALIASI
HKUST

THE DISCUSSION BEGAN WITH A PANEL MEMBER NOTING THAT a major bank had conducted a survey of their second-generation clients - some of whom would now already be in their 60s - and found that most of them would not continue to bank with the same private bank as their founder generation parents.

An expert spoke first, explaining that their firm's efforts are mostly directed not at private clients, but at serving institutional clients such as private banks, wealth management firms, fund managers, to enhance the services to their end customers.

"We are indeed seeing these trends," they said, "so we conduct education seminars, and financial planning sessions to help them focus on engagement with the younger generations, the Millennials, how to connect to them via social media and other means than face to face. A lot has changed in the past 20 years or so since we began these types of seminars and this sort of education. We aim to speak their language, to aim the sessions that we conduct for our institutional clients on the relevant topics, lifestyles and so forth."

She added that her firm has done a lot of work on how we can better serve the HNWI market and devised a research-driven fund and asset manager star ratings offering that is also usable by individuals in a public website.

JANET LI
Mercer

"We believe the next generations are not just looking at yield, but they are also looking at customer experience apart from investment, and at areas such as ESG, so we offer them qualitative research through this public platform."

Another guest remarked that a lot of their work in this regard has been with family offices in Asia, many of which are going through the same transition where the principals are no longer the original founder generations.

"The founders are often stepping back to let others in the family direct their investments, and we are seeing trends towards more ethical, sustainable, governance-driven investing, more ESG, more foundations," he noted. "They are not so focused on the main indices, they often do not think along those lines, they are more struggling with redirecting the portfolios more towards the younger generations' requirements, without overly sacrificing return. We are seeing more interest in ESG versions of ETF strategies, more thematic ETFs, in short more suitable types of products."

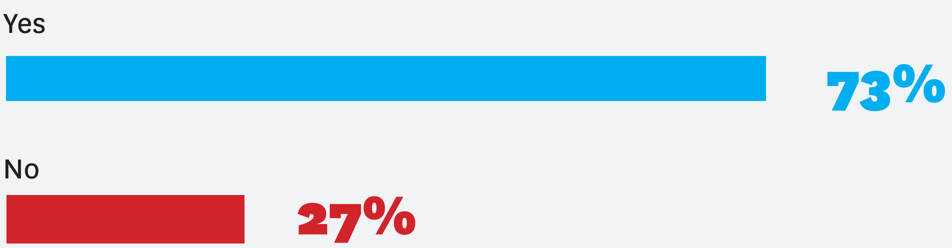
"We are actually seeing many asset owners and asset managers, even regulators focusing more on sustainable investment," came another voice. "If you think of the World Economic Forum's global risk report, four out of five most pressing risks that the world currently faces are environmental, and the fifth is war, which I would argue is also environmental." Millennials and younger generations, they added, are vocal on these concerns, and for the wealthy want to know their investments are targeting products that help in different ways."

ALEKSEY MIRONENKO
Premia Partners

A guest concurred with the view on transparency, remarking that rankings of ESG characteristics and scores on ETFs are helping the asset management and investor communities.

A panel member highlighted the widespread availability in Europe of many different ESG strategies. "But we see far less progress in Asia,"

DO YOU WANT TO WORK WITH YOUNG CLIENTS?



Source: Investment Solutions Forum 2019 - Hong Kong

he noted, "so, for example, there is not a single Asian equity ESG product in ETF structure. There are only about a dozen publicly available beta strategies that are ESG in any shape or form in the wider EM market. Is that a demand or supply issue? Right now, we do not know. Another problem is that you have different standards across the world, so it is tough to compare across countries and jurisdictions."

A guest reported that it is important to approach this challenge with a view to screening out the businesses that investors think might be controversial or harmful from an environment, societal, or governance point of view. Examples of this would be tobacco, alcohol, GMOs, controversial weapons, nuclear weapons, firearms and the list goes on, ending up with a portfolio that will have enhanced ESG characteristics compared with the broader indices.

Another panellist also pointed to the rising global population and the ageing of societies and their impact on investment horizons and approaches. She noted that the burdens of their parents, grandparents, could be on the shoulders of the younger generations and there must be a longer-term approach from a younger age.

A guest also explained how there is still a shortage of money directed towards ESG investments.

"Are we speaking the right language, are we connecting to investors, should we be targeting institutional investors, sophisticated investors, or retail investors, HNWIs, the millennials?" they asked, rhetorically. "When you talk to

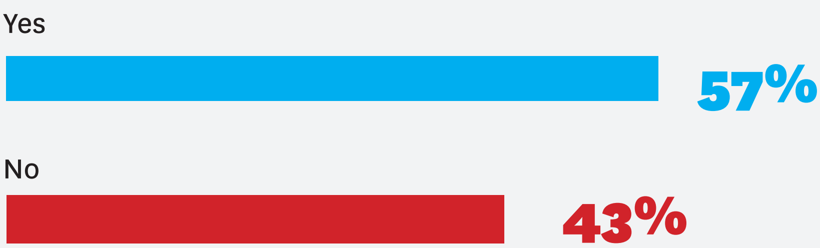
SUNITA SUBRAMONIAM
BlackRock

institutional investors they might want to invest in infrastructure projects or other projects, however, their maturity, the time horizon, the liquidity concern, political risk will not allow them to take infrastructure projects which last for 20 years, so then you have to provide the mechanisms to exit, for example involving institutions such as the Asian Development Bank."

She added that there must also be more information on how ESG criteria work and their impact on returns.

"There is actually clear evidence that there is a benefit in terms of returns on ESG strategies," replied another panel member. "In fact, there is a

HAS CLIENT DEMAND FOR IMPACT INVESTING, SRI, ESG INCREASED?



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very nice correlation between high ESG ratings and quality, low volatility and low tail risk. Over the past 5 to 10 years you would have experienced a better return at roughly the same level of risk. But will that be true when looking ahead? The issue is that valuation multiples of stocks with ESG principles embedded have risen to a premium to the market, making it more difficult to predict higher returns."

He explained that the best stocks are already owned by all people who care about ESG, so the key to future performance will be to fine-tune ESG ratings to identify the companies that will become ESG-driven stocks and thereby enhance returns potentially, as well as valuation multiples.

"We think it is important to realise that ESG can actually mitigate and limit your exposure towards systematic and idiosyncratic risk," came another view. "so, for example, the Facebook data breach, or the Volkswagen emission scandal, or the collapse of a dam in Brazil. The right ESG ratings and the application to portfolios could have excluded or minimised the exposure to companies like that, and that is potentially one explanation for why ESG products tend to do better because they protect investors from market events."

An expert commented that data and information are essential to improve the ESG-type investor universe in Asia, but that there remains some considerable scepticism on the ratings, the information, the approach. "Yes," said another panellists, "so it is really important to communicate with the millennials, and the new generations in terms and topics they relate to so being very thematic is important, focusing on the impact on the world they will live in, the impact on water, food, health, environment."

The final word came from a guest who noted that governments and regulators can also play their parts by demanding greater ESG-type disclosures from their universe of listed companies. He remarked that Hong Kong has been doing this, and also putting pressure on China to improve its ratings in this regard. ■

"YES," SAID ANOTHER PANELLISTS, "SO IT IS REALLY IMPORTANT TO COMMUNICATE WITH THE MILLENNIALS, AND THE NEW GENERATIONS IN TERMS AND TOPICS THEY RELATE TO SO BEING VERY THEMATIC IS IMPORTANT, FOCUSING ON THE IMPACT ON THE WORLD THEY WILL LIVE IN, THE IMPACT ON WATER, FOOD, HEALTH, ENVIRONMENT."

Shifting the Dial – How Should Asia's HNWIs Recalibrate Their Portfolios

A panel of experts assembled at the last group discussion of the Hubbis Investment Solutions Forum to ponder the optimal portfolio strategies for late 2019, in anticipation of 2020. There was plenty of healthy disagreement on all the key investment markets, and only one clear consensus, namely that the world remains an uncertain place, and returns will remain elusive.

These were the topics discussed:

- *What are the main investment themes and 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?*
- *How are you delivering performance? Managing risk?*
- *What Asian Markets offer the best value? What's your view on China?*
- *What is your current thinking about the role of fixed income and credit in HNW / UHNW clients' portfolios?*
- *What are the prospects for US dollar interest rates in the coming 12 months?*
- *Equity - where is best? Where is worst?*
- *What must be considered when investing in emerging markets?*
- *What's the role of structured products in 2H 2019?*
- *Any role for passive and index products?*
- *What's the role for private debt and alternatives within portfolios?*

PANEL SPEAKERS

- **Simon Godfrey**, Senior Vice President, Head of Products, EFG Bank
- **Michael Levin**, Head of Asset Management, Asia Pacific, Credit Suisse Asset Management
- **Jacky Tang**, Head of Portfolio Management Group Asia, Co-Head of Investment Strategy Group Asia, Goldman Sachs
- **Harold Kim**, Founder and Chief Executive Officer, Neo Risk Investment Advisors
- **Angel Wu**, Managing Director, Head of Product Management Group, Bank of Singapore

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THE KEY TAKEAWAYS

Some are taking a glass half full approach

Some experts on the panel were fairly positive, with the discussion opening with one guest saying that the universe of fixed income is not so gloomy, especially outside the major developed markets, and particularly in Asia, and also using swap techniques. Meanwhile, he opined that investors are generally under-invested in equities - the equity risk premia are actually at attractive levels, especially for some markets in Asia such as China.

But, hold on a second, the US remains appealing

Another guest offered a rather different view, arguing that the US will enjoy plentiful inflows to equities next year, as the likelihood of a recession is modest, while the earnings cycle is again picking up, and the result should be that US equities are again leaders for the globe. Meanwhile, although EM equities are ostensibly offering better value, this expert worries about the fundamentals there, especially for China, where the "A" share will drop back and volatility rise.

Uncertainty persists, so risk must be dynamically managed

The near impossibility of predicting economic, financial or corporate fortunes means that investors must pay greater attention to greater dynamic management of the risks in their portfolios. And investors must focus on the medium to long-term, not the short-term.

Uncertainties are still there, but markets have discounted them

Another view came from an expert who noted that in fixed income investors should focus on limited credit exposures and shorter durations, while in equities many concerns, for example over trade wars, have been heavily discounted in the markets, offering value, especially in markets across Asia.

Take the tactical approach

A fellow panellist agreed, at least in part, arguing that investors must take a tactical view of markets, and remarking that equity valuations have returned to reasonable levels today, especially as the rates easing cycle continues, and there are good opportunities in dividend stocks, particularly in this Asia region.

Don’t ignore climate risk

A guest highlighted the vital importance of climate risk and the growing impetus for regulators and the major investors to demand climate impact assessments and benchmarks. This all offers both risks for those recalcitrant companies and opportunities.

Are you getting enough return for your illiquidity?

While private assets - equity, debt, property - are increasingly in vogue in multi-asset portfolios, a guest questioned whether investors are earning enough return for the concomitant lack of liquidity, especially as prices are being driven up by the tsunami of money chasing opportunities.

GCC beckons as a new opportunity

The Gulf Cooperation Council Countries (GCC) were also mentioned, as they are being upgraded to Emerging Markets status in some of the major indices, creating a new type of EM opportunity.

India on the bounce

India today is back on the investment radar for EM buyers. Political stability, reduced inflation, and even with the tragedy in Saudi Arabia relatively moderate oil prices, accommodative monetary policy, rapid growth, the potential for margin expansion and therefore significant earnings growth, all add up to an interesting story.

But...the central banks are out of bullets

The final word went to an expert who pondered the state of central bank operations, expressing concerns that the world is in a new and worrying phase. With negative rates on supposedly risk-free assets and the potential for risks or bubbles to escalate, the world’s central banks appear to have no more bullets left to stave off crises, which could mean rising spreads and rising default rates.

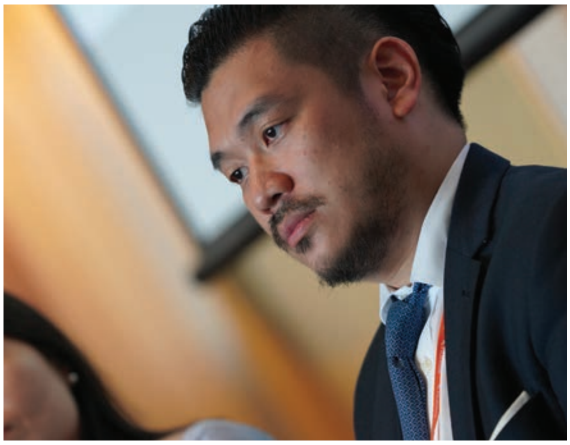
MICHAEL LEVIN
Credit Suisse Asset Management

"PEOPLE ARE OVERREACTING ON THE FIXED INCOME SIDE and probably under-invested on the equity side," began one private banking expert, in a statement that offered some cause for optimism amongst the delegates. "There are low yields, and tight spreads as a result of accommodative monetary policy, but fixed income outside the major markets, especially Asia, is appealing, for example senior secured bank loans swapped with floating rate paper and collecting some very appealing yields - default rates over the last 12 months have been almost zero. Real estate also offers predictable sources of yield, and the rental rates may even benefit from inflationary pressures and because of some of the economic challenges there hasn't been a lot of development, so there is lack supply."

He added that people appear rather too willing to accept any incremental risk for incremental yield but are perhaps not being sufficiently compensated.

Swapping in Asia

"Asia is the best market," he noted, "as you can capture yields approaching 6% for an average investment grade portfolio with a pretty moderate duration and floating rate. LIBOR is about 2.14%, and you compare that to the five-year yield which is about 1.75% and we actually get a yield pickup for reducing the risk and any way to reduce risk and capture incremental yield should be taken, all day long."



JACKY TANG
Goldman Sachs

SIMON GODFREY
EFG Bank

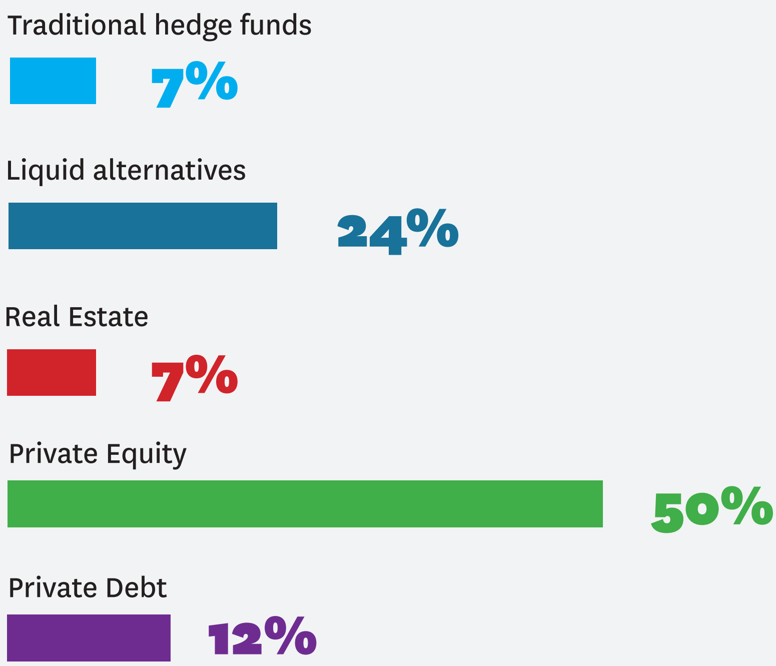
He then noted that his view is the equity risk premium is actually at very attractive levels, especially some markets in Asia such as China. "One can assemble a pretty compelling portfolio with a 10 times PE roughly, a 3.5% dividend yield and with 20% ROE. That's something that investors should be doing all day and not worry so much about volatility."

The US markets beckon

Another guest offered a rather different view. "We think the US should be the place where you will see more inflows next year," he said. "We see the chances of recession as modest, and we see the fundamentals as actually pretty good with even the earnings cycle picking up, and we think that the US fundamentally should give some support to the overall global equity market. We also think that the EM valuation today is much more attractive than the US, but at the same time we are also worried

HAROLD KIM
Neo Risk Investment Advisors

WHICH ALTERNATIVES SEGMENT IS MOST INTERESTING FOR YOUR CLIENTS IN 3Q19?



Source: Investment Solutions Forum 2019 - Hong Kong

about the fundamentals of some EM markets, and especially Chinese companies, where we think that not so many Chinese companies offer comfort when looking at the balance sheet and their P&L, so I am not sure next year the 'A' share market will continue to do as well as this year, and there will be more volatility to come."

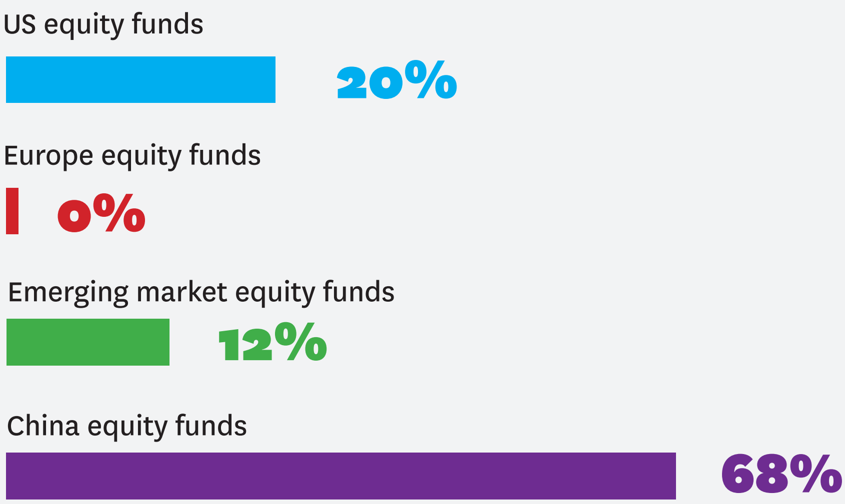
ANGEL WU
Bank of Singapore

Focus on risks

An expert highlighted his wariness of shorter-term views and explained how he tries to focus on a 10-year horizon. "People who try to predict where rates were going through this year got it all wrong, and people who tried to predict where equities were going last year got it all wrong," he reported. "So we should focus on longer-term trends, for example, the rise of China's institutional investor presence, the low likelihood of the low rate environment reversing itself over the next two or three years, but as typically the correlation between rates and equity means that you want a little bit of both in your portfolio, with the weighting dependent on your views and risk appetite."

"There is too much cash around," came another opinion, "and investors need predictable sources of yield, so we see there is preference for limited credit exposure, and a preference for an investment grade blend with high yield and shorter duration. And as to equities, a lot of the concerns about trade wars have been heavily discounted in the markets, so the question now is whether or not valuations are attractive, and earnings growth is going to be reasonable. I think yes, certainly for Asian equities."

WHICH FUNDS WILL EXPERIENCE THE MOST INFLOWS IN IN 2020?



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Stay in, but underweight equities

A different view came from another expert who said they are firmly underweight equity at this point. "We think that you should stay invested," he commented, "but with a strategic asset allocation, and underweight equity."

"I firmly believe that it is incredibly hard to predict where the markets are going, equity or fixed income," so we advise having a balanced portfolio and managing risk actively," said another panellist. "We believe risk is little bit more predictable than return."

Another expert reported that his firm likes to advise clients in a very strategic long-term way, but clients also need to anticipate what will happen over the short term.

Stay in and consider overweight equities

"That means we tend to have a more tactical view of markets," he explained, "and we do feel that equity valuations have come back a lot from where they were a year ago, so we don't see equities as being overvalued today. We also feel there is still some potential with the fact it will continue to be in an easing cycle and therefore without confirmation that there is a recession or deep recession scenario we do feel there are still some opportunities there. We see rotation towards value. We like dividend yielding stocks and especially in this Asia region. It is a good time to diversify towards value in equities, but we don't see much potential in fixed income, to be honest."

An expert highlighted climate risk, which they said will overshadow ESG in the next years to come, for several key reasons. Because of climate change, climate risk has become a tangible risk, with the exposure of USD2 billion per year expected to increase to USD1 trillion per year by 2025 onwards. Only one-third of this risk is insured. Regulators are now asking larger companies to disclose on climate-related risk as soon as 2020.

Climate the hot topic

Most importantly the climate risk is beyond physical damage - the social and economic impact will put our society in distress by 2030 onwards, and the young generations are very much aware of climate-related risk, hence they will be asking for products related to a cleaner environment, better health, more sustainable and affordable food, a more sustainable society.

"I believe only a handful of companies are starting to truly realise the real impact of climate risk on their bottom line," they commented. "The bad news is that it is very difficult to predict climate risk. The good news is that investors are starting to realise that this is a risk that they can no longer afford to ignore."

"THE BAD NEWS IS THAT IT IS VERY DIFFICULT TO PREDICT CLIMATE RISK. THE GOOD NEWS IS THAT INVESTORS ARE STARTING TO REALISE THAT THIS IS A RISK THAT THEY CAN NO LONGER AFFORD TO IGNORE."

An expert turned to alternatives, such as private equity and particularly private debt, which has attracted a lot of capital of late. He said the question is whether investors are being sufficiently compensated with an illiquidity premium.

The absence of mark to market is perceived by many as an absence of risk, but too much money flowing into this area results in too much leverage to produce higher returns, because prices have risen. "This actually is a pretty bad recipe," he commented.

Another guest reported that their firm's model portfolio offers a roughly 10% allocation to private equity, around 5% to private credit, and 10% to both traditional hedge funds and liquid alternatives. I don't really see that investors are looking for very high returns, but they are focussed on the volatility part or the risk part."

A guest countered that view with the opinion that the trade wars will be resolved sooner rather than later, and aligned to MSCI inclusion, there will be stronger inflows to Chinese stocks from foreign institutional buyers.

Is the US insulated?

The discussion drew towards a close as a guest commented that the world appears to be focusing on geopolitical and climate change connected to trade tensions, and resulting in a thrust towards de-globalisation, and populism.

"Weighing up the many factors," he said, "the US is actually reasonably well insulated, particularly when you have monetary stimulus, fiscal stimulus and increasing tax cuts with full employment, making it very hard to see a recession environment. OK, valuations are a little bit rich at 18 times, but you have rates again being cut and supportive."

Think about the GCC and India

The Gulf Cooperation Council Countries (GCC) were also mentioned, as they are being upgraded to Emerging Markets status in some of the major indices, creating a new type of EM opportunity. GCC countries are oil-exporting, with currencies pegged to the dollar, high foreign currency reserves and very low debt-to-GDP. Momentum investing into GCC stock markets has proven to be quite lucrative for traditional EM investors, said one guest.

Another expert mentioned India. "Political stability, reduced inflation, and even with the tragedy in Saudi Arabia relatively moderate oil prices, accommodative monetary policy, rapid growth, the potential for margin expansion and therefore significant earnings growth, it is all a good story that people don't talk about much," he stated. "On the equity side and fixed income side you have risk free rates of about 6.6% in India, the Rupee is relatively stable at 71, so I think India is a good focus for tomorrow."

Central banks are spent forces

The final word went to a concerned observer who said that there are major worries out there. "We are concerned about the longer-term impact of persistent friction between the US and China, in other words becoming an economic cold war and the battle for technology dominance. And another concern is the trap of low or negative interest rates on various asset classes and the potential for risks or bubbles to build, yet without policy tools any longer available to redress them, leading to worries over whether the lower yields and lower default rates in corporate credit are both sustainable." ■

ESG Investing Surging Globally, but Investors Beware of Greenwashing

Delegates at the Hubbis Investment Solutions Forum in September were treated to a tale of both great growth potential and also of caution from Andrew Daniels, Senior Analyst, Manager Research at global investment research and management group Morningstar. He told the audience of the growth in sustainable investment activity globally, but also addressed the concerns of 'Greenwashing', the practice of making ordinary funds appear greener than they are in order to win a larger slice of the growing wall of money pouring into ESG alignment.

DANIELS BEGAN BY EXPLAINING THAT HE WANTED TO HIGHLIGHT THREE KEY PRINCIPLES in his brief presentation. Number one is the growth of ESG - environmental, social, and governance - investing is actually a genuine global trend that is growing rapidly. Secondly, he wanted the audience to beware of 'Greenwashing' which is the practice of product issuers falsely marketing products as having ESG attributes. And thirdly, he highlighted what the funds and investment industry can do to address this.

A market enjoying rapid growth

Armed with some detailed and easily understandable slides, he then showed the audience the remarkable growth path of what Morningstar terms Sustainable Investment Assets, showing that these have grown from under USD4 trillion in 2006 to almost USD31 trillion today. "ESG has entered the mainstream," he reported.

He noted some other interesting trends. While institutional money has long dominated that total sustainable asset base, retail is actually growing at a much faster pace and now accounts for 25% of total sustainable assets, up from 11% in 2012.

He also explained that in Asia, the numbers are quite modest but rapid growth is expected. Out of Morningstar's universe of

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more than 3000 socially conscious mutual funds and ETFs, the bulk of the assets continue to be held in Europe with USD595 billion in AUM as of June this year, with North America meanwhile at about USD191 billion. But compare that with Asia with over just USD11 billion as of the end of June. "It underscores how much growth potential there is here in Asia going forward," Daniels concluded.

ESG gaining momentum

He then explained what drives the growth around these assets. ESG and impact investing are moving up the political and economic agenda, and the world has started to focus on economic implications of natural disasters, extreme weather events and what climate change's impact is on food and water supplies.

The second driver is regulation. He noted that more governments, as well as regulators, are playing an increasingly active role to ensure that companies are adopting sustainable practices, as well as encouraging asset owners to make sure that they adopt ESG factors in their investment decision making.

Finally, there is a growing body of research that is showing a positive link between ESG considerations and either return enhancement or risk mitigation. "These factors," he reported, "are combining to significantly change investor preferences, and there are analogues in other industries as well.

Alignment of values and principles

Daniels then covered what sustainable investing is. "It is a complex area," he observed, "and can actually mean different things to different people. There are many terminologies that are being used from SRI to ethical and green investing, but from Morningstar's perspective, we see this in three segments."

The first segment, he explained, comprises investors that consider sustainable investing to be exclusionary based on their values, such as avoiding tobacco, gambling, alcohol, weapons and so forth.

The second is ESG integration where industries are not excluded by screens, but instead integrated into the fundamental research process for alpha generation and risk mitigation purposes. "This is the area we're seeing increasingly adopted by asset managers globally," Daniels said.

And the third type is what is called 'impact investing,' where the capital is allocated based on financial returns, but also based on impact measurement on certain causes, for example, clean water, women's empowerment, education, public health and so forth.

Watch out for false prophets

All of this complexity on the nomenclature applied to this type of investing has allowed some product issuers to disguise their products in the market by using loosely defined attributes and overstating their commitments around ESG to potentially garner assets from the marketplace. They do so to gather assets under effectively false pretences, as more and more money migrates towards ESG.

"And that is what we call greenwashing," he explained. "Although there is no standard definition of greenwashing, the European Commission terms this as unsubstantiated or misleading claims about sustainability characteristics and the benefits of an investment product."

He highlighted the many funds in 2018 have launched with purportedly sustainable characteristics. "Actually," he reported, "while many are actually truly repurposed towards ESG, some of them are merely renamed. It was just a relabelling exercise, nothing really changed. They are simply trying to grab a larger piece of this growing pie."

And, without naming the managers directly, he showed the audience some major funds that had been market as ESG integrated or impact funds, but its holdings conveyed a different story.

Diligence where it is due

That brought Daniels to his final point, his assessment on how the industry should respond. He said fund managers should be more transparent on how they incorporate ESG into their investment processes as well as their engagement through shareholder resolutions. There are regulators such as the Hong Kong SFC that have issued guidelines for investment management companies.

Most importantly, the investor should conduct their homework, look under the hood, drill down funds at the holdings level rather than simply relying on labels. He closed by showing delegates the Morningstar Portfolio Sustainability Report as one of the main tools to look at while doing due diligence on supposed ESG related strategies. "The report, coupled with time series data, help us ask better questions to portfolio managers about specific holdings throughout our due diligence process. This leads to a better understanding of the investment approach, and ultimately helps us verify whether the portfolio managers are employing the approach as stated," Daniels said.

"This is an exciting and dynamic area for the world of investment," he concluded, "and although in its nascent stages of development, the industry is certainly heading in a positive direction." ■

The GCC – Opportunities in the Newly Emerging Market Status Countries

The Gulf Cooperation Council Countries (GCC) are being upgraded to the status of Emerging Markets by major indices, creating a new region for investors in the EM arena to focus their attention. GCC countries are different from the other countries in the EM universe to date, as they are oil-exporting, their currencies are pegged to the dollar, they enjoy high foreign currency reserves and very low debt-to-GDP. Momentum investing in GCC stock markets has proven to be quite lucrative for traditional Emerging Market investors of late. Dr Ryan Lemand, Senior Executive Officer for ADS Investment Solutions & Global Head of Wealth and Asset Management for ADS Securities addressed delegates at the Investment Solutions Forum to highlight the opportunity.

LEMAND INTRODUCED HIMSELF AND THE ADSS GROUP, which he explained is a group of privately-owned companies in Abu Dhabi in the United Arab Emirates with a presence also in London, Hong Kong, Singapore.

"My mission today is to highlight some of the investment opportunities for Asia's HNWIs in the Gulf Cooperation Council countries, which is better known as the GCC region." He said he could only touch on some key insights in a brief talk, but that the overall picture was one that wealthy investors should take a good look at as a diversification in the EM universe.

He began by focusing on oil revenues, reserves and CapEx in the oil sector. He first showed how Saudi Arabia's foreign exchange reserves had peaked in the 2013-2015 and had been declining rapidly since then, partly driven by historic lows for the price in the years after the global financial crisis.

"When looking at these charts," he said, "many people had assumed that this trend will continue forever, and Saudi Arabia will later go bankrupt. But oil has recovered more than doubled from its lows and in late September was trading at around USD64 and with replacement CapEx in the oil sector at about 80% of total spending, and global demand for oil rising, there is a considerable supply shortage going forward."

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ADS Investment Solutions

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The OPEC deal came in to stabilise the market, he reported, and not only helped keep the price elevated and at a sweet spot, but most importantly decreased the volatility, with historical vol dropping from 66% to 13%, and implied vol from 65% to 22%. "So," Lemand reported, "Saudi is actually building forex reserves again and has also been using its foreign currency reserves to fill in certain gaps."

Oil, he continued, is controlled by a cartel called the OPEC, itself controlled by the majority of the oil-producing countries around the world, with a key purpose to balance out the market to sustain a certain price.

"The conclusion of all this data I am highlighting today," Lemand explained, "is to explain why we are so positive on oil prices." He went on to explain how oil supply is largely dependent on capital expenditures, so, for example, an oil well dries up within six months to maximum one year. He reported that as 80% of CapEx in OPEC countries is just replacement CapEx, and because there is lower CapEx due to lower oil prices in recent years, there is not enough replacement CapEx today to sustain the production over the long term.

"The result," he warned, "is that we might see an oil supply crunch potentially in the medium term, which of course means higher oil prices." This, he said, was further borne out by oil stocks representing 47 days of world consumption currently, which is an all-time low. And with risks such as the attacks on Saudi Arabia recently, that could drop even lower.

He further warned that electric cars are no panacea. "If you look at the number of appliances you have at home that are made of plastic, there are literally numerous consumer items requiring oil as the base product. And the world is still using charcoal, amazingly, with demand and supply still going up."

Leman then zoomed in on the six GCC countries, the United Arab Emirates, Saudi Arabia, Qatar, Bahrain, Kuwait and Oman. "Typically," he reported, "these countries have their currencies pegged to the dollar, they are net importers of goods, so a strong dollar is beneficial. Second, they sell oil and benefit when prices are going up. Most of these countries have recently been reclassified to EM and most importantly, the UAE and Saudi Arabia are now part of the MSCI and FTSE Emerging Market Indices, which means that all of the passive managers will have to include these two countries in their portfolio; otherwise they can have a tracking error."

He turned then to the assets of the central banks and sovereign wealth funds, which he said represent multiples of their respective GDP. He explained that with extremely low debt, high foreign exchange reserves and investments, largely positive fiscal balances, and diversifying economies, the outlook is very encouraging."

The UAE, he explained, was created in 1971 and at the time oil was 90% of its GDP. "Last year that figure was just 30%," he reported, "so they have been dynamically diversifying their economy. Saudi Arabia's strategic plan 2030 is following the same path."

He then noted that GCC stock markets are not really fundamental markets, they are mainly momentum driven, and dominated by retail investors and increasingly foreign institutions.

To access the markets, he advises smart beta, noting that already out of the USD5 trillion ETF market globally, some 20% is already smart beta and for asset owners of less than USD1 million today the adoption rate is more than 40%. Moreover, the trend is accelerating - he noted that 2017 was a breakout year for smart beta, with over USD55 billion of global inflows in smart beta strategies, and with the global market capitalisation of USD80 trillion roughly, there is plenty of room for growth.

"This is simply because, in downturns, smart beta saves you money," he reported, "you don't lose as much money when using a smart beta strategy. I can concede that, as yet, this is not proven in the GCC, but we are seeing more managers use smart beta there."

He then highlighted one of ADSI's flagship strategies which invests into Saudi Arabia stock market, by simply using the Tadawul Index, which is the Saudi Arabia index and using the smart beta strategy. He showed how from September 2012 to April 2019 it had realised a gain of 79% versus 70% actual index performance, while the Sharpe ratio is higher, the standard deviation is lower, the maximum drawdown is lower, thereby offering investors benefits from all levels just using a plain vanilla smart beta strategy.

Lemand also agreed that geopolitics today have pushed the risk premium of the GCC into the red zone, but he said that was driven by lack of knowledge of the region and fear. "But," he said on closing, "the opportunities in the GCC are there for all to see." ■

State of the Emerging Markets: Unearthing the Hidden Gems in Asia

Aleksey Mironenko is a keen proponent of the value HNWI investors can find in China 'A' shares and in the key parts of Asian stock markets. In his capacity as Partner & Chief Distribution Officer for Hong Kong-based investment manager Premia, he gave a presentation at the Hubbis Investment Solutions Forum to highlight opportunities in China new economy shares, in innovative Asian companies and in the firm's recently launched Vietnam ETF. He believes that in a world of inflated valuations and liquidity seeking new homes, ASEAN and China markets are at an exciting phase of development and offer a highly diversified range of opportunities. And to access these, HNWIs can buy into Premia's growing stock of China and ASEAN ETF strategies.

PREMIA IS A RELATIVELY NEW INVESTMENT MANAGER dedicated to Asian ETF investment solutions, arriving on the scene in Hong Kong less than three years ago. In only a few years since inception, Premia has propelled itself to the eighth largest ETF manager in Hong Kong by assets under management (AUM), from a standing start.

Mironenko told the assembled delegates that Premia's team comes from a variety of leading firms and have always focused on Asia before they came together to build an Asian ETF company. Premia today already boasts a team of 20 with hands-on execution experience from leading firms. The firm has garnered a wide range of leadership and managerial experience from global institutions including Marsh & McLennan, BlackRock, China Asset Management, Mirae, Value Partners and other firms.

"And just shy of two years after our first ETF launch," he reported, "we are already the 2nd highest ETF provider by inflows in Hong Kong and in the top 8 of ETF providers in Hong Kong by assets. Why? Because we build products that are relevant for Asia, relevant for investors seeking exposure to these markets, and do it all at lower-cost of entry and a more incisive selection of investments."

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Premia's 3 core principles

Mironenko explained that Premia was founded on three core beliefs. First, there is enormous scope for innovation in Asian ETFs, and plentiful opportunities to introduce global best practices for Asia. Second, Asian investors should not have to trade in New York or London or Frankfurt to find the best products the ETF industry has to offer. And finally, Asian investors deserve better solutions than those available today and technology allows Premia to make them a reality.

"The firm's ideology is to offer investors a vision of 'smart investing,' aiming to create a reliable, curated ecosystem that is conducive to ETF investing, optimised with the best technologies, tools, and platform," Mironenko reported. "This all adds up to the bold yet straightforward goal to reshape the landscape for ETFs in Asia."

Mironenko then offered delegates some insights into how investors can turn to Premia to help them capture the growth momentum available in Asia's EM arena. He highlighted some key Premia strategies.

"We set out on to create Premia with a vision that the ETF industry in Asia, the beta industry, is far behind the rest of the world," Mironenko elucidated. "We all know about the low-cost S&P 500 and FTSE 100 and EURO STOXX 50 ETFs, but when you look here in Hong Kong, China, or Southeast Asia, we don't have sectors, we don't have factors, we don't have themes and some of our biggest ETFs cost 1% plus. So, beta is not really an alternative in our part of the world, and we decided to create a firm to change that. It is a very simple premise. Today, we have more people dedicated to beta in Hong Kong than pretty much everybody but iShares. And we create strategies that are highly focused, highly relevant, and that offer good value for that access."

In an over-valued world, seek value elsewhere

Mironenko pointed to some charts that highlight how the US equity market is very highly valued, how there is almost nowhere to obtain yield in fixed income without taking on substantial credit or duration risk or both, how gold has already surged significantly since 2018, and that there are fewer and fewer evident drivers to keep that momentum going much longer.

He explained that this background is ideal for Premia's strategies in China and in Southeast Asia, including Vietnam.

In broad terms, Mironenko reported that Premia's chosen EM markets in Asia have strong fundamentals, low valuations, are under-invested and are now benefiting from improved currency dynamics. He added that emerging ASEAN stocks are also benefiting from supply chain repositioning, while China new economy stocks are benefiting from an increasingly domestic and consumption-driven market.

"Taking China," he said, "we know growth is slowing, but we offer structural growth stories that are not correlated, such as, for example, New Economy stocks. China knows the US exports game is over compared to the past, so the long-term story is going to be a relative decline in exports to the US. With this in mind, our Premia CSI Caixin China New Economy ETF (3173 HK) offers smart beta exposure to China "A" new economy stocks, targeting precisely the part of the Chinese economy that continues to grow."

Not only does the Premia ETF focus on new economy stocks, but its index narrows the field down to focus on quality, asset-light, low debt, high R&D and high growth potential firms.

Asia beyond China

And he then turned to the broader Asian region, highlighting the Premia Asia Innovative Technology ETF (3181/9181 HK), which offers pan-Asian coverage of a diversified group of innovation leaders. "This comprises companies that make more than 20% of their revenue from new technologies, such as 3D printing, e-payments, GPS manufacturing, optical lenses for robots and others," Mironenko reported. "And then we narrow the field here too, focusing on growth and R&D expenditures to identify not just new technology firms, but the leading new technology firms."

Lastly, for those thinking about growth in new markets, Premia recently launched the Premia MSCI Vietnam ETF (2804/9804 HK). Vietnam as an economy has a very large number of positives, he explained, and is also the biggest US-China trade war beneficiary. "Vietnam is one of the fastest-growing markets in the region, benefiting not only from the trade war but from increased domestic consumption by its 100 million citizens" he said. "It is an exciting choice for investors, as the country is in fact not yet an emerging market - it is classified as a frontier market and is working hard to qualify for emerging market status under MSCI."

The country, he noted, has many key positives, including government support via privatisation to boost the equity market, faster growth than most of ASEAN and indeed, all of Asia, conducive liberalisation, and growing foreign investor interest. It also offers a 60% labour cost advantage vs China, a large and willing-to-work population and increasingly improving infrastructure for global supply chains. "Our new Vietnam ETF offers a low cost, rules-based access strategy to the fast-growing Vietnam market," he reported. ■

Investing During the US-China Trade Conflict: Uncorrelated Equities & Truly Risk-Free Cash

Throughout 2019 the world has suffered from the US-China trade conflict fallout, and while many investors have been inclined to de-risk and wait it out, there are opportunities lost as well by pursuing that strategy. Instead, Hong Kong investment manager Premia Partners believes a more appropriate strategy is to identify the equity winners regardless, minimise correlations, and buy into truly risk-free assets as a hedge for any doomsday scenario. David Lai, Premia Partner & Co-Chief Investment Officer, and Aleksey Mironenko, Partner & Chief Distribution Officer, paired up for a fascinating Workshop at the Hubbis Investment Solutions Forum.

"WHETHER THE TRADE CONFLICT ON BOTH ECONOMIES WILL CONTINUE," Lai remarked, "and exactly how much damage it will inflict, nobody knows, but we see that both sides have their own point of view to try to minimise the impact."

Almost 30% of the world's investment-grade debt is already negative yield, but buyers are still queuing up for it, meaning they are chronically risk averse in accepting that if they hold to maturity they will receive back less than they paid. And gold is also a major beneficiary of this global risk aversion.

With indicators increasingly pointing to the potential for a recession in the US, and with core inflation in the US about 2.4%, probably a result of tariffs, the combination of slower economic growth and higher inflation is never good for the equity market.

China – despite headwinds, still advancing

Over in Asia, the assumption might be that China would fare badly in this environment. Yet China 'A' shares have returned nearly 30% YTD, with China adjusting fiscal policies and

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therefore reducing debt costs in the corporate world and the economy at large, thereby providing a boost to domestic consumption. Moreover, China has been intent on policy measures to boost consumer activity, in such areas as promoting e-commerce, green/smart home appliances and other measures to help encourage overall consumption. And tax cuts for the corporate and personal/retail markets, with particular knock-on benefits for 'A' share listed corporations.

Lai then focused on China old and new economy stocks, highlighting how it is important to be selective, not to view Chinese equities as a whole. "You can see that the China New Economic Index - mainly consumer stocks, healthcare and IT, are growing much faster than the average," he explained. "Domestic consumption, technological upgrading, urbanisation, infrastructure - the high-innovation end of this, and tech/IT, these sectors are all driving towards stronger growth in the near future."

Vietnam – a remarkable story

Vietnam is currently a key beneficiary of the China-US trade conflicts. Aside from Vietnam's core economic fundamentals as it transits from a frontier to an emerging market, the trade wars are delivering a boost from the shifting of China production into Vietnam itself, and at lower costs. Moreover, while the ASEAN currencies such as Thai Baht and Philippine Peso have been robust against the dollar year-to-date, Vietnamese Dong has exhibited very low volatility during the same period of time.

"China's exports to the US have dropped, but Vietnam's exports to the US have surged by about 33% in the first half of 2019" said Lai.

It is not only China shifting production. Vietnam offers comparatively appealing labour costs for China and other countries in the region. And the infrastructure is improving rapidly. Moreover, a lot of investors may only focus on the growing trade activities of Vietnam but miss out the consumption potential of the country. With close to 100 million people, most of them still at a very low-income bracket, and with a rapid expansion of manufacturing and general activity, there is markedly faster consumer spending across all segments.

"Vietnam's spending has been more than 50% centred on food and beverage, in other words, necessities," he reported, "but a whole range of areas from financial services to healthcare, housing, retailing, and other sectors are now rising rapidly as spending power rises and as more spending is focused on these growth areas. And tourism is growing very rapidly, with the government targeting 10% of GDP from this sector as more Asian and other visitors flood in."

China New Economy stocks shine bright

Premia thus far has two China ETF strategies and is very bullish on prospects there for equity investors. Mironenko reiterated some of Lai's observations on China and explained that all of the key developments Lai had talked about will benefit China's 'A' shares market, which is also being propelled by new foreign investment coming in through the Stock Connect programme driven by MSCI inclusion from Q2 in 2018, pulling in more and more foreign investors.

He reiterated how structural change is also central to the uptick in China interest, as the country's emphasis is on the new economy. Domestic consumption contributed some 37% to GDP growth in the past decade, but it is nearer 80% today. The new economy exposure in the index, including consumption, IT and healthcare, used to be about 20% and today is 32.5%, so new economy exposure in the capital markets is also gaining weight.

The Premia CSI Caixin China New Economy ETF offers access to this universe of China A 'new economy' stocks and is tilted toward asset-light, accounting conservative and quality growth stocks and has outperformed comparable alternatives, including ChiNext, since its creation nearly two years ago with less volatility.

Great performance YTD

China New Economy is actually one of the best performing China 'A' share ETFs globally year to date, having risen 28% by the end of September.

Premia Partners - Building a Reputation for Dedicated, Efficient Beta in Asia's Markets

Premia Partners (Premia) is a Hong Kong-based investment manager that began life some three years ago and that offered its first ETFs just two years ago. The firm's stated goal is to be a trusted ETF partner for investors by curating a best-in-class range of ETF tools and solutions that enrich and empower its partners and investors in Asia and for Asia. In only a few years since inception Premia has propelled itself to the eighth largest manager in Hong Kong by assets under management (AUM), from a standing start.

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"The New Economy definition is industries that are skilled talent, advanced technology, asset-light, sustainable growth, and my personal favourite for China, policy supported," he elucidated. "That is just not our definition, this is the definition of the New Economy PMI that is published in China and what we are simply doing is taking the industry definitions they included in PMI, and we convert them to stock subsectors."

The problem is that the universe is then still 900 stocks. "So, not only do we focus on new economy stocks, but we then narrow the field down to focus on quality, low debt, efficient inventory management, nimble leadership, targeted, efficient R&D spending and other key factors," Mironenko explained. "We like asset-light firms, those who are there to benefit from China's long-term transition from the old economy to new economy. We also want low net operating assets and low accruals, because you will be shocked how many companies in China have fantastic earnings and have negative cash flow."

The universe is thereby trimmed from 900 to 300 stocks. "Financials and real estate don't feature in new economy," he reported. "The government is going to use that sector to promote New Economy in our view, meaning net margins will fall. But what we overweight are sectors such as consumer discretionary, healthcare, technology/IT, innovative infrastructure, so for example not the businesses that lay the railroad tracks but the businesses that build the bullet train engines. In other words, high skill, high complexity, high tech industries, and of course robotics, which is far from old economy. All these key areas can be accessed efficiently through the Premia CSI Caixin China New Economy ETF."

Vietnam – getting into the detail

Mironenko shifted his attention to Vietnam, for which Premia on July 18 listed its Premia MSCI Vietnam ETF (2804 HK/9804 HK), making it easier for investors to access this dynamic and fast-growing market.

Vietnam offers strong economic growth and a young, large and fast-growing workforce. The country is enjoying rising FDI and trade, with increasing inflows and trade value that is overtaking neighbours. The country also enjoys rapid growth of the consumer as Vietnam moves from relative poverty to emulating its ASEAN neighbours such as Thailand or Malaysia. Improved macroeconomic conditions include stable credit growth and monetary policy alongside solid currency control and strengthening reserves. And Vietnam is arguably the biggest beneficiary of the trade war and the resulting review of global supply chains.

The country, therefore, has many key positives, including government support via privatisation to boost the equity market, faster growth than most of ASEAN, conducive liberalisation, and growing foreign investor interest. It also offers a 60% labour cost advantage vs China, a large and willing-to-work population and increasingly improving infrastructure for global supply chains.

With a large and fast-growing population of around 97 million, Vietnam's story opens the door to investment opportunities in all sorts of key consumption sectors, from retail to education to healthcare and IT.

Growth will be faster than in broader ASEAN. It all means that in the next decade Vietnam will benefit from the growth as high as 7% per year, so for those investors that missed the early years of China's boom, Vietnam will probably be the next one they should be looking into.

The country offers robust growth in earnings, growing at least at double-digit rates for the next two years. And on the regulatory front, the authorities will remove the foreign ownership limit of most listed companies by early 2020, which might coincide with the upgrade to EM status. And with growth rates of about 7%, they are already growing faster than China," Lai added.

The equity market size is now only 60% of GDP, but the government has a target to raise that in 2020 to 100% and by 2025 to 120%. Surprisingly, Vietnam has already surpassed Singapore to become the biggest IPO market in any ASEAN country. The stock market should roughly double in size within six years.

A pure Vietnam play

The ETF offers pure Vietnam exposure, as the strategy tracks the MSCI Vietnam Index, which consists of only public Vietnam listed companies and may one day be added to MSCI EM, hopefully, sooner rather than later.

The ETF offers physical replication, in other words direct low-cost access to the Vietnam stock market. It is cost-efficient with ongoing expenses of only 0.75% p.a., vs 1%+ for existing foreign-listed ETFs and 1.5%-3% for active funds.

As it is Hong Kong-listed, and available in USD or HKD, it offers easy access for investors and in the same time zone as the underlying market and without any US withholding taxes.

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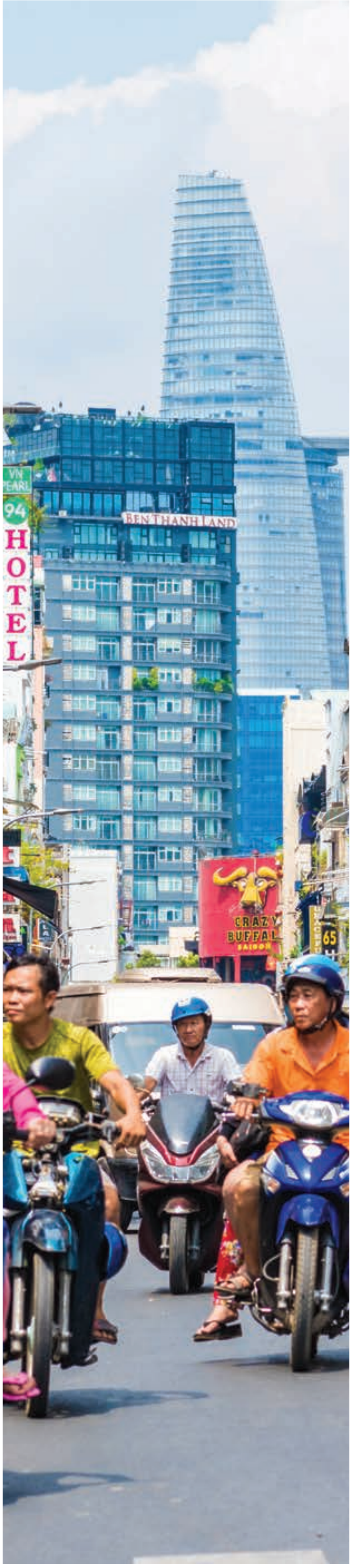
Borne out of a need

As with every Premia product launch, the Vietnam ETF was borne out of client frustrations, and offers single country exposure that was not available



through Premia's ASEAN ETF, and it improves on what Premia considers other less viable avenues, such as synthetic or US domiciled ETFs, or those that invest in non-Vietnam stocks or even PE.

"Our mission," Mironenko explained, "is to improve the Asian beta landscape and solve investor challenges into Asia, and with this ETF we offer a low cost, rules-based access, and 100% physical replication strategy to the fast-growing Vietnam market. It is the first ETF tracking MSCI Vietnam index globally and will benefit directly if there is an upgrade from frontier market to emerging market status, which will pull in a lot of foreign interest going forward."

Putting cash where cash can yield

Lastly, Mironenko focused on another new strategy launched in July in the form of the Premia US Treasury Floating Rate ETF (3077HK/9077HK), which helps investors mitigate trade conflict risks by generating risk-free USD yield.

He highlighted the investment case for US Treasury FRNs. Cash and dry powder are needed, with many investors increasing cash levels as the cycle gets long in the tooth and uncertainties pile up. Bank yields remain low and readily available cash doesn't pay very much. Cash with risk seems to be the norm - credit risk in money market funds, counterparty risk in repos, timing/duration risk in long-dated deposits. And cash is not operationally straightforward - rolling t-bills and time deposits, identifying the best yielding bank product all takes time away from more important investment thinking.

The Premia solution offers the shortest duration instrument, with only one week of duration with coupon resets weekly. There is no credit or counterparty risk, as there is 100% physical exposure to US treasury obligations only. It offers a high risk-free yield, translating currently to a 2.1% gross yield, higher than all US treasuries up to 10 years.

Keep floating

Mironenko explained why the ETF buys into floating-rate US treasuries, not fixed-rate obligations. "With the Fed Funds at 2.25%," he reported, "it's obvious that investors seek out alternatives. But if you buy into money market funds these might typically offer a higher yield of course, but they are run actively and invest in not just Treasuries, but in commercial paper, longer-dated government securities, repos, so there is either credit risk, counterparty risk, or interest rate risk. The fees are also higher. Yes, they are professionally managed and there is nothing wrong in principle with this type of cash management approach. But remember 2008 and just how quickly things can go wrong, as investors fled prime funds to the safety of government-only investments."

Time deposits, he noted, are also another popular way to invest cash, but have several problems - they need constant rollover and scrutiny for the best rates, the buyer is 100% exposed to the default risk of the bank, retail and institutional rates are different, and the investor is locked in and cannot use or reinvest the cash until the time deposit is finished.

Finally, many investors simply buy t-bills and roll them on a regular basis themselves. But for relatively smaller sizes, this is quite difficult as treasuries typically trade in increments of at least USD100k, and even at that size, the pricing is inefficient.

In short, there's no perfect solution for cash," he concluded. "But our US Treasury Floating Rate ETF was borne out of these client frustrations. In our view, floating-rate Treasuries can function as a core alternative for short-term bond exposure with reduced interest rate and credit risk." ■

‘Do-It-Yourself Wealth Management’: Efficient and Low-Cost Access to Professionally Managed Global Diversified Portfolios

At a recent Hubbis Investment Solutions Forum, Dr Harold Kim, Founder and Chief Executive Officer of Neo Risk Investment Advisors, highlighted how the widespread availability of ETFs combined with managed account technology allows individual investors to have global, diversified, low-cost portfolios managed professionally in their own accounts with full transparency. He called it ‘Do-It-Yourself Wealth Management’.

“INVESTORS,” SAID KIM, “NEED SIMPLE, low cost, diversified, liquid portfolio investments. They also want transparency, tailored exposures, and on-going risk management, if possible, but these desirable features are generally not available through current distribution channels. For example, private banks, under constant revenue pressure, generally provide very little advice with regard to low cost investment exposures such as ETFs, which pay nothing in trailer fees back to the private banks.”

The widespread availability of ETFs has transformed the investing landscape as more investors have come to realise that passive indexes outperform most active managers over time. For the five years to December 2018, Kim cited S&P research that finds that 82% of US large-cap funds underperformed the S&P500, meaning that the majority of investors would have done better by simply buying an S&P500 ETF. Kim also mentioned data

HAROLD KIM
Neo Risk Investment Advisors

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from Morningstar that found only 35% of active funds across various asset classes beat their relevant indexes in 2018.

"Little surprise then," Kim concluded, "that in a recent article the Wall Street Journal highlighted that more US equity assets are now managed passively than by active managers. For investors, the spread of ETFs is a good development, since investors now have access to solid investments across a variety of asset classes with low fees and with real transparency."

The second technological development is the availability of advanced managed account platforms for individual investors, enabling investors to receive sophisticated advice independently and cost-effectively. A managed account is an account that is in the investor's own name–it is not a fund or other sort of collective investment scheme where the investor's money is pooled with funds from other investors. The account and the underlying positions are held directly in the investor's name and can be accessed at any time to check positions and remit or transfer funds, providing full transparency.

In the past, institutional-size investments were a pre-requisite for opening a managed account, but today, technology has enabled democratisation of the process to the point where online trading platforms can now offer managed account capability to investors from as little as USD10,000 upwards.

The combination of ETFs and managed account capability means investors can do their own wealth management, either directly or with the help of an advisor in a low cost, efficient, transparent manner.

For example, a 60% equity/40% bond "do-it-yourself" portfolio comprising only one global equity ETF and one global bond ETF, rebalanced monthly, would have returned 7.7% per annum over the last 10 years (to May 2019). An advised, risk-rebalanced portfolio with 8-10 ETFs would have done even better, 8.5% per annum, with one third less risk.

"If you have an actively managed global portfolio, did you do better?" he asked the audience rhetorically. "The passive do-it-yourself portfolio is pretty good already, but if we add some extra help in the form of an investment adviser to manage your account and smart beta ETFs, you can do even better in terms of performance with considerably less risk."

Kim concluded that the opportunities for investors are increasing significantly as the ability to build low cost diversified portfolios across many asset classes has become easier. On the other hand, for private banks and active fund managers, the hurdle has gotten higher. "More and more investors realise there are very efficient, low-cost ways to build robust, diversified portfolios, so the challenge for private banks and active fund managers on how to add value will continue." ■

Index and Quant Investing in Asian Market for Asia's Wealth Management Community

Harold Kim, Founder and Chief Executive Officer of Neo Risk Investment Advisors, offered a fascinating Workshop at the Investment Solutions Forum to explain how factor/smart beta investing and dynamic risk management works. These investment approaches are widely used in developed markets, but their adoption in Asia has been lagging. Using passive investments, smart beta and dynamic risk management can significantly improve investment performance while reducing risk in Asian equity markets.

"IF I HAD SIMPLY TITLED THIS TALK 'INDEX AND QUANT INVESTING IN ASIAN MARKETS', NOBODY WOULD HAVE SHOWN UP!" Kim quipped on opening his Workshop. "So, my subtitle is 'Why you should care about factors, smart beta and dynamic risk management'. Hopefully this subtitle has grabbed your attention."

Kim started with an historical perspective on the development of the fund management industry, both active and passive, before zooming in to explain more about factors, smart beta and dynamic risk management.

Factors and smart beta

A factor is "an attribute of an asset, stock or bond, that both explains and produces extra returns," according to Morningstar, or from BlackRock's viewpoint, "broad persistent drivers of returns". "For example, equities and bonds that are exposed to growth, rates, inflation, credit, and other factors may provide excess returns as a result of these exposures," he noted.

Smart beta, he then clarified, is an implementation of a factor exposure. "Factor is an attribute," he said, "while smart beta is a product that is trying to capture that factor. As it is often difficult to capture pure factors, most industry participants seek

HAROLD KIM
Neo Risk Investment Advisors

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to capture tilts to the factors in smart beta index form. Examples include value, momentum, and low beta indexes."

Dynamic risk management

Dynamic risk management relies first on the fact that volatility tends to be persistent—if volatility is high today, then volatility will most likely be high tomorrow; similarly, if volatility is low today, then most likely it will be low tomorrow. Persistence implies predictability (unlike in the case of returns, which are impossible to predict in the short run). The key to dynamic risk management, then, is to recognise when markets are in a state of high volatility or low volatility and to position the portfolio allocation accordingly, and to be reactive when markets are transitioning from one risk state to the other.

"Dynamic portfolio allocation," he explained, "simply means changing portfolio allocations through time in response to changes in the investing environment; in our case, as risk changes. Dynamic risk management means reacting to changes in risk. It isn't enough to just measure and monitor risk; critically, you need to act. When risk starts to change you must do something. The result should be outperformance and realised portfolio risk within the investor's tolerance level."

In addition to persistence, the second driver of outperformance is negative correlation between volatility and returns, particularly in equity and credit. If high risk is systematically associated with low returns, then dynamic risk management can deliver added value.

Kim noted that the dynamic risk approach is widely used in developed markets and has

been institutionalised, with major index providers such as S&P Dow Jones, MSCI and FTSE Russell calculating dynamic risk management versions of their benchmark indexes.

Passive beats active

But why should investors care about this? Kim cited S&P Dow Jones research that finds that, for the five years to December 2018, 82% of US large-cap funds underperformed the S&P500, meaning that the majority of investors would have done better by simply buying a passive S&P500 ETF. Kim also mentioned data from Morningstar that found only 35% of active funds across various asset classes beat their relevant indexes in 2018.

"Little surprise then," Kim concluded, "that in a recent article the Wall Street Journal highlighted that more US equity assets are now managed passively than by active managers. For investors, the spread of passive investment vehicles like index funds and ETFs is a good development, since investors now have access to solid investments across a variety of asset classes with low fees and with real transparency."

Adding factors and smart beta

When we add factors and smart beta into the equation, the hurdle for active managers becomes even higher. Kim quoted academic research that showed that excess returns previously attributable as active manager alpha were actually systematic, factor-related excess returns that could be captured in a low-cost way by smart beta ETFs such as those based on quality, value and momentum, driving the growth in popularity in these products.

"For active managers, this is troublesome," he stated, "because it was hard enough to beat the benchmark before, and now beating the benchmark plus is even more difficult."

What is risk?

The role of risk in the investment process is often neglected. "Investing is a trade-off between risk and return, so as you think about the investment equation, risk should be just as important as return."

Furthermore, what makes risk interesting is that risk is persistent and therefore predictable.

"What do I mean by persistent?" he asked, rhetorically. "If market risk is low today, market risk tomorrow will most likely be low. If market risk is high today, then most probably market risk will be high tomorrow. That is persistence. Contrast that with returns. If returns are positive today, does that mean returns will be positive tomorrow? Most likely the answer is that we do not know—the chance is 50-50 that markets will be up."

If you have two important inputs to an investing model, one of which is unpredictable and of one of which is predictable, which input should you focus on? Of course, you should focus on the predictable input. That input is risk.

Application to Asian markets

The investment environment in Asia changed dramatically from 2017 to today. After strong equity market performance in 2017, everyone expected things to continue in 2018. Instead, what happened? Asia turned around and went right back down again, falling almost 15% in 2018. It is very hard to predict return!

At the same time, risk, which was very benign in 2017, more-than-doubled during the course of 2018 as markets fell. Kim explained that if investors had reacted by adjusting their portfolios as risk changed, then they would have been managing risk dynamically, and they should have done better than if they had taken no action.

Take action, be dynamic

For example, in October 2018, Asian equity markets fell by over 10%; therefore, an investor with a full allocation to equity would have lost the same amount. However, an investor who lowered their equity allocation as risk jumped through 2018 would have lost less.

Neo Risk Investment Advisers: A Snapshot

Kim founded Neo Risk nearly five years ago with two colleagues after leaving a 20-year career at Citibank, where he had been responsible for the investor derivatives business in Asia.

The premise behind the creation of Neo Risk was his observation that Asian investors lag in terms of understanding advances in quantitative finance that can be used to improve investment performance, including derivatives, factor investing, dynamic risk management and asset allocation.

Kim's focus is to apply these skills and approaches in Neo Risk's advisory business and within the fund that Neo Risk manages on behalf of the firm's clients.

Neo Risk has two core businesses. The first business is investment advisory, working with a range of investors, such as family offices, hedge funds, asset managers and other institutional investors.

"We help our clients think about risk systematically in a variety of ways," Kim explained, "including strategic portfolio allocation and how to make risk more dynamic, better ways to implement a long/short hedge strategy and designing investment strategies to accomplish defined objectives."

Neo Risk's second business is managing the REAP Asia Equity Fund, which uses a risk-focused investment strategy focused on Asian exposure. The Fund was nominated as best new fund of the year by AsiaHedge (2017) and EurekaHedge (2018).

Kim explained that the dynamic risk management approach really differentiated itself in 2018. “Asia lost almost 15% with 16% realised risk, but a dynamic risk management approach achieved 4% outperformance with one-third less risk.”

Inaction (that is, keeping a static portfolio allocation) during 2017 and 2018 meant missed opportunities. Either you did not capture returns in 2017 or you lost more money than you should have in 2018. “When risk doubles, triples, quadruples, you must respond dynamically. Doing nothing is not optimal. Adding smart beta exposure that outperforms most active managers further enhances returns. The combination allows investors in Asia to invest smarter and do better.” ■

Neo Risk Investment Advisors Limited is a Hong Kong SFC-registered investment advisor and fund manager.

We take an innovative approach to investing that focuses on risk management to deliver superior investment results. Our approach enables us to construct investment portfolios that are resilient in volatile markets; our aim is to control risk and limit losses when markets are weak.

We use a variety of tools that are grounded in academic research but have been tested in the real world to measure, monitor and manage risk actively, including quantitative risk modeling, advanced asset allocation and derivatives.

The China Potential & Using ETFs and Tactical Trading Strategies to Boost Returns

Louis Lu, Head of Quantitative and Alternative Investment Department at CSOP Asset Management, sees huge opportunities for China. He addressed the Hubbis Investment Solutions Forum to explain the why and how of participating in that market, including offering some interesting trading strategies to boost returns, while reducing unwanted volatility.

LU BEGAN HIS SPEECH BY PARAPHRASING DR WILL DURANT, explaining that Durant had observed that over the course of human history, human behaviour had changed, but not human nature. Lu then extrapolated that by taking a historical perspective, quantitative trading strategies can profit from the unchanged human nature Durant had observed.

His presentation included three sections: a brief introduction to the Hong Kong ETF market, 5 seasoned strategies and then some insights into the recent market developments.

Hong Kong ETFs mostly track Chinese assets, with 80 of the Hong Kong-listed ETFs or more than 50% focused on Greater China (including Taiwan and Hong Kong), he reported. In terms of the assets tracked by the Hong Kong ETFs, including non-China ETFs, around 90% are stocks, with the rest in bonds, currencies and commodities.

Of the top 20 most active traded ETFs listed in Hong Kong, nine are issued by CSOP, including four inverse and leveraged products. As of the end of June 2019, CSOP leveraged & inverse products accounted for 98.48% of market turnover, and 82% of assets under management.

Lu shifted his focus to ETF trading strategies. His first strategy was 'Pairs Trading', a contrarian strategy that tries to profit from the principles of mean-reversion processes. In his case example, Lu focused on the statistical arbitrage

LOUIS LU
CSOP Asset Management

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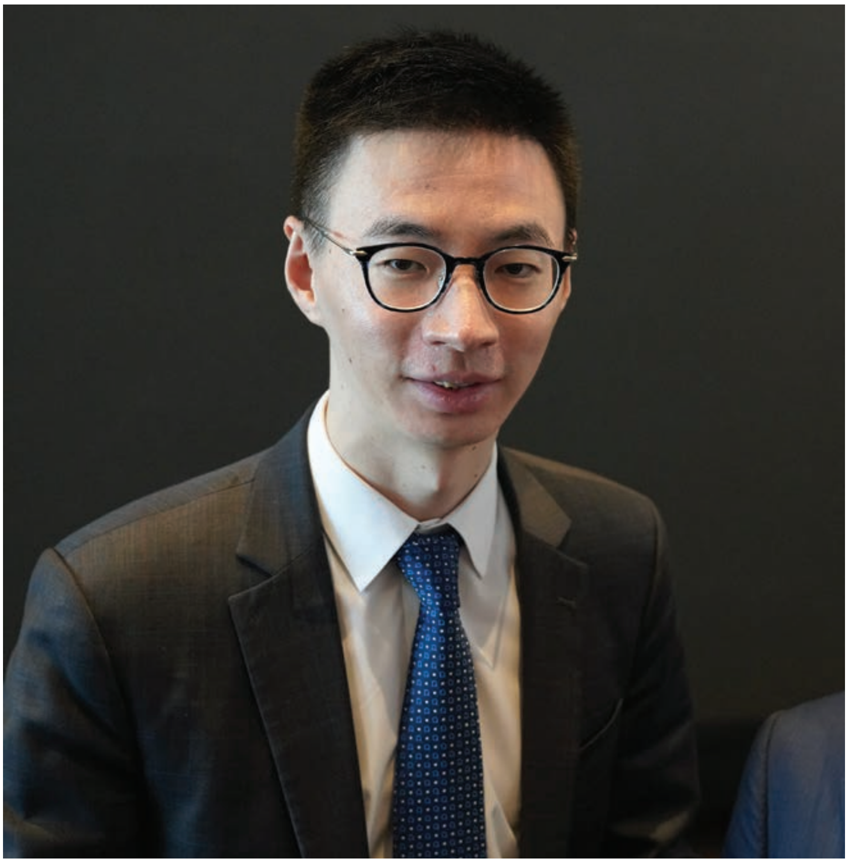

CSOP: China investment with diversity

Headquartered in Hong Kong, CSOP facilitates foreign investment into China's capital markets. Founded in 2008, CSOP was the first Chinese asset manager granted the privilege of operating outside of the Mainland and is currently the world's largest RQFII quota manager and one of the largest overseas Chinese asset managers. With decades of experience in emerging Asia, the company reports that its nearly 70 employees work energetically to research and share their hard-earned insights and investment solutions with investors globally.

opportunity between China's onshore stocks, or 'A' shares, and offshore stock, or 'H' shares.

CSOP road-tested this strategy from January 2016 to the end of 2017 for two years, in bullish market conditions and achieved a 4.17% annualised return. "That may not be so impressive in a bull market," Lu commented, "But we tested in more difficult conditions during 2018, and we achieved 7.21%. As this strategy is market neutral, the return is not dependent on whether we are in a bear or bull market."

The second strategy he highlighted is pair trades between ETFs tracking different China indexes, such as the FTSE China A50 Index, the CSI 300 Index, and the ChiNext Index (China's NASDAQ index). "We arbitraged by trading 90% of the A50 ETF and 10% of the ChiNext ETF to achieve a higher return with lower volatility than the CSI 300 ETF."

Lu then highlighted the third strategy, which he told the audience was his favourite. "This is called the 'Holiday Effect'," he explained, "and involves buying and selling before and after some certain holidays. If we buy ChiNext ETF one week before the Chinese New Year and sell one week after that, the winning rate is 100%, and the return is around 6.93% on average. If you buy one week before but take a longer holiday, you actually produce a return of 7.8% on average, with a 100% winning rate. So, it pays off to spend more time with the family."

'Sell in May' was his fourth strategy. He argued investors could be better off if only trading for the 6-month period commencing in November and ending in May. He showed several charts that supported his view. He added the result was statistically more significant for Hang Seng Index and HSCEI Index.

His last strategy was a more complicated 'intraday trading' strategy, which consisted of what he terms a "contrarian" sub-strategy in the morning and a "momentum" sub-strategy in the afternoon. He told investors that the introduction of leverage and inverse products in Hong Kong made such intraday trading more feasible for day traders with limited access to the futures contract markets.

Lu closed his ten-minute talk by inviting delegates to consider CSOP ETFs and trading strategies around those to boost their returns while reducing their exposure to volatility. ■

EM Fixed income and China 'A' Shares – Yield and Return in a Low-Return World

Donald Amstad, Chief Operating Officer, APAC Distribution & Head of Investment Specialists for Asia Pacific at Aberdeen Standard Investments sees real value in Emerging Market Debt as an asset class. He gave a lively presentation at the Investment Solutions forum to highlight these fixed-income opportunities, and to advise HNWI clients and the assembled advisers where and how they can buy such instruments. And he also pointed the spotlight to the great China 'A' share revaluation bonanza that, he believes, has begun in earnest in 2019.

AMSTAD BEGAN BY QUIPPING THAT HE SHOULD BE CALLED Don not Donald in today's world and remarking that he is now a YouTube sensation since his August 27, 18-minute video analysis of the world's coming recession and ensuing crises went viral, with 400,000 hits in two weeks.

"My previous record for a YouTube video was 548 hits, in total!" he jested. "Anyway, please watch it and help me hit the million mark."

Take two...great opportunities

There are two valid opportunities for Asia's investors, namely emerging market debt and China 'A' shares.

"There is one theme running through the global economy at the moment," he observed, "namely uncertainty at all levels - corporate, financial, economic, political and geopolitical. Indecision results, or lack of decision-making at the corporate levels. Where to put a factory these days? The answer is nobody knows any more, everyone is postponing decisions. And for your clients as well, those HNWIs are racked with indecision. Because bond yields are so low and equity prices are so high. What on earth should they do?"

DONALD AMSTAD
Aberdeen Standard Investments

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He noted that more than 50 central banks around the world have cut rates this year and at least USD15 trillion of bonds now trade with a negative yield to maturity.

The global no income market

"The fixed income market should be renamed the no income market," he noted. "Unless you short the 10-year bond in Germany, for example, so you achieve a positive carry because the 10-year German government bond is yielding minus 50 basis points. Go short minus 50 basis points to earn 50 basis points. A crazy world, I think!"

Amstad explained that the only bond market left with any yield is the US Dollar bond market, and within US Dollar bonds, the best value ASI sees is in short-dated bonds because the yield curve is flat.

"But your clients clearly want more than the 1% to 1.5% on offer there, so perhaps one way is to take greater credit risk in the US, although beware as balance sheets have leveraged up in the past decade, to the point of being more heavily borrowed today than they were in 2007, resulting in over USD3 trillion worth of debt sitting at 'BBB'. And if GDP growth drops off, a tsunami of corporate bonds will soon be in the 'BB' space, including names such as Ford or GE potentially."

However, Amstad highlighted how emerging market companies have, meanwhile, generally spent the last five years deleveraging. Yet the Aberdeen Standard SICAV I Emerging Markets Bond Fixed Maturity 2023 Fund, which spans the globe of EM fixed income, offers a current YTW of 4.74% on the duration of 3.3 years and average rating of 'BBB'-"That sounds rather good, we think," he stated.

Biggest and the best

Amstad then shifted his attention to an equity-risk play, namely the China 'A' share market. "Simply, we see it as the biggest and the best opportunity on the planet today from both a beta point of view and an alpha point of view."

The labour force in China now is actually declining, with somewhere between five million workers net per annum leaving the labour force, and that is even accelerating because of the one-child policy, because of urbanisation, there are fewer graduates coming into the market. "In short," he explained, "the demographics in China are terrible."

As the government moved people from the countryside to the cities, rapid urbanisation needed rapid industrialisation, with the financial system funding this. It has all been incredibly successful - GDP per capita has gone from USD100 to USD10,000 in four decades, and life expectancy has gone from 36 years to 76 years. "No small achievement," he said, "for 1.4 billion people..."

The next phase, he projects, is four decades of transforming the vast pool of savings accumulated in the past four decades into stable cash flow for a rapidly ageing population and their pensions.

"This," he concluded, "all has incredible implications for all of you here today because the government is now focusing intently on the quality of assets in the financial system."

They need pensioners to be able to invest directly or indirectly into bonds that pay coupons and mature at par, or into equities that can pay a dividend and grow that dividend.

To develop a credit and equity culture in China, the government knows that the only way to do that is to open up the doors to foreign investors. "Which is precisely what they are doing through the Hong Kong Bond and Stock Connect system," he added.

Bargains galore…for now

Amstad then extrapolated that the price the country's leaders are willing to pay is for houses like Aberdeen Standard Investments, and all the peers to openly go into China and buy the crown jewels of the Chinese financial system at near bargain basement prices.

"We all see Chinese shoppers around the world laden with bags stuffed with designer goods," he remarked. "They certainly know the price and value of quality goods. But when it comes to financial quality, they remain less sophisticated. Nevertheless, they are incredibly smart and learn fast. We believe quality financial assets in China will, one day soon, become expensive just like everything else they buy."

China 'A' Shares, the second-biggest stock market in the world, remains a virtual casino today, he added, judging by 80% of turnover dominated by retail investors. "2019 is the year the China 'A' share market has started to internationalise, to institutionalise, and to become more professional. It is the real birth date of this market in many ways." ■

Post event report

19 September I Hong Kong

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Summary

We were delighted to host our annual investment-focused event in Hong Kong. Over 220 senior individuals attended - including leading product & fund gatekeepers from the top international and local Private Banks, Retail Banks, Multi-Family Offices and IFAs, as well as relationship managers and investment advisers from the industry.

With the successful run in the markets in the second half of 2019, we asked where wealth management firms and their clients who have done well during this period will go from here?

We held four interactive panel discussions throughout the day - which involved 20 senior industry practitioners who shared their thoughts on the state of the markets. The themes are ever-more pertinent given the efforts by robo-advisers and other emerging digital platforms to challenge the traditional investment process and distribution channels.

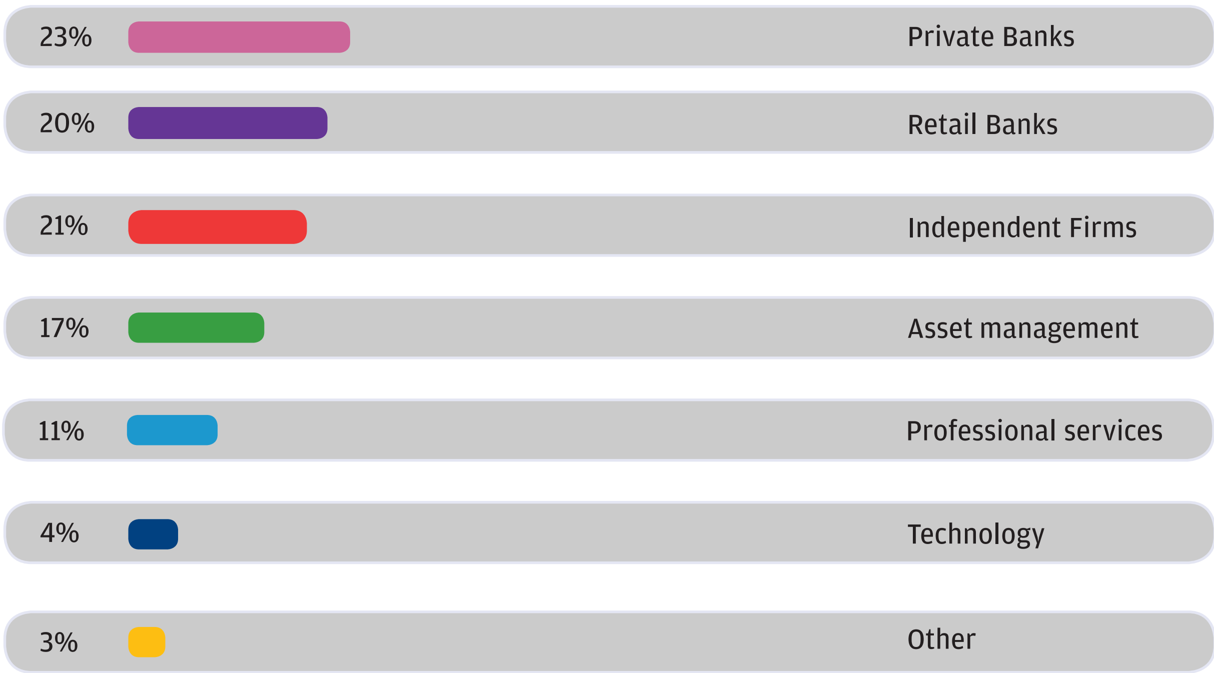
Panelists reviewed the state of the wealth management industry to highlight what value proposition might be required to survive and prosper in the future. They debated whether the cost and revenue pressures are of such a scale as to threaten the survival of some of the key players. They also discussed whether the growth of private wealth in Asia will propel the market, or if only the biggest and best can survive. They wondered if, at the other extreme, the smaller adaptable, nimble newer competitors can forge a market presence and prosper.

On the second panel, a wide-ranging discussion took place, with an eclectic group of experts offering different opinions on the future of wealth management in terms of its future products, services, business model and profitability, including assessing the impact of the ongoing battle between active and passive strategies, and the role of digital in promoting potentially improved investment opportunities, strategies and enhanced user interface.

Millennials are the future - those who are inheriting Asia's vast private wealth and those who are now making the region's future wealth. Whichever route they arrive at their wealth, the private banking and wealth management community are concentrating increasing efforts at keeping them within their folds as clients or bringing them to their firms as new customers.

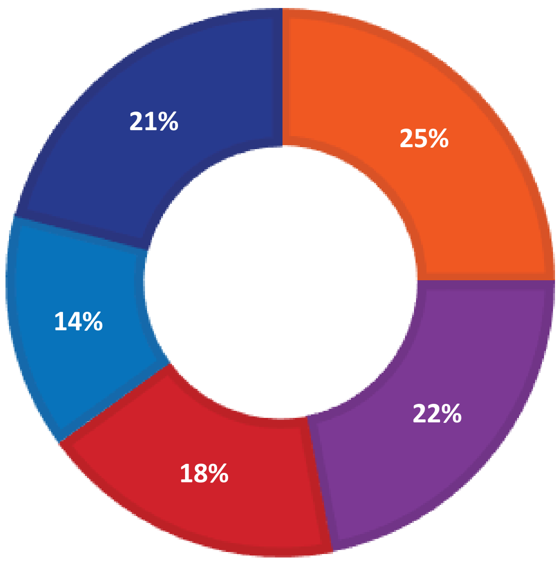
Closing this year's forum, experts assembled at the last group discussion to ponder the optimal portfolio strategies for late 2019 and in anticipation of 2020. There was plenty of healthy disagreement on all the key investment markets, and only one clear consensus, namely that the world remains an uncertain place, and returns will remain elusive. ■

Attendee Profile



Job role

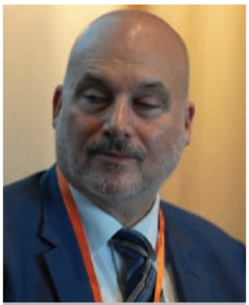
- C - Level
- Product/ Investment
- Business Head
- Adviser/ Wealth Manager
- Other



Attendees from these firms

Aneto Capital
Aria Forum Wealth Management
Avenue Family Office Limited
Avenue Investment Management
AZ Investment Management
Bank J Safra Sarasin
Bank Julius Baer
Bank of China International
Bank of Communications
Bank of East Asia
Bank of Singapore
Batavia Prosperindo Asset Management
Carret Private Capital
Chongyang International Asset Management
Citi Private Bank
CMB Wing Lung
Cornerbridge Capital
Credit Suisse
CreditEase
DBS Bank
Deloitte
Deutsche Bank
EFG Bank
Fubon Fund Management
Fusang Group
FWD
Grey Investment
Hang Seng Bank
Harris Fraser Group
Heavenly Wealth Management
Hong Kong Housing Society
HSBC Bank
HSBC Private Banking
Huatai Financial
ICBCAsia
Industrial Bank
IZCAP
Julius Baer
LBN Advisers
Lion Partners
Lippo Investment Management
London and Capital Asia
LuPu Investment Group
Manulife
Maximum Success Capital Management
Morgan Fuel Go Securities
Noah Private Wealth Management
Noble Apex Advisors
OCBC Wing Hang Bank
Ord Minnett
Oreana Financial Services
Phatra Securities
Phillip Capital Management
Prudential Corporation Asia
Raffles Family Office
RHB Asset Management
Riverwest Advisors
Shinyoung Asset Management
St. James's Place Wealth Management
Swiss Asia
Telligent Capital Management
The Fry Group
Tokai Tokyo Securities
UBP
UBS
UCAP Asset Management
WEK Capital
Winland Wealth Management

Speakers


Richard Straus
EFG Bank


Michael Benz
Synpulse


Jean-Louis Nakamura
Lombard Odier


Silvio Struebi
Simon-Kucher & Partners


Stewart Aldcroft
CitiTrust


John Robson
Quantifeed


Harold Kim
Neo Risk Investment Advisors


Tony Wong
CSOP Asset Management


Terence Goh
Bam Fintech


Simon Ree
ICICI Securities


Tobias Bland
Enhanced Investment Products

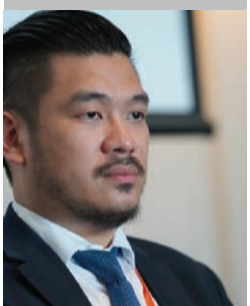

Entela Benz-Saliasi
HKUST

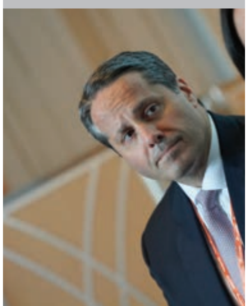

Sunita Subramoniam
BlackRock


Janet Li
Mercer


Aleksey Mironenko
Premia Partners


Simon Godfrey
EFG Bank


Jacky Tang
Goldman Sachs


Michael Levin
Credit Suisse Asset Management

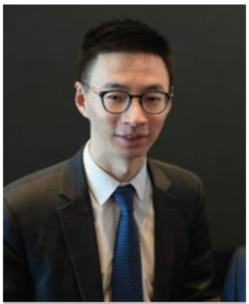

Angel Wu
Bank of Singapore


David Lai
Premia Partners

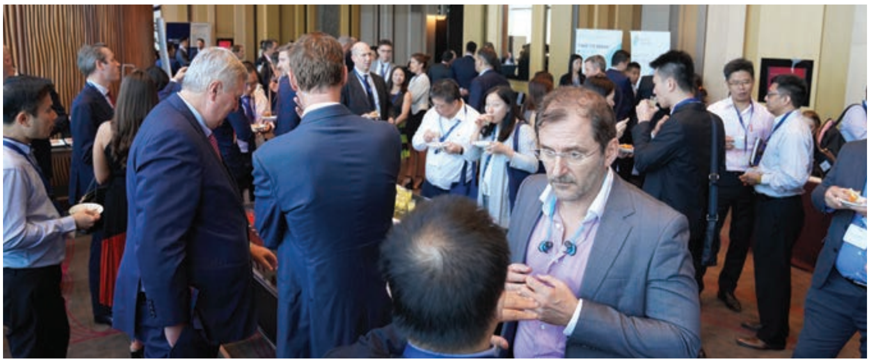
Donald Amstad
Aberdeen Standard Investments

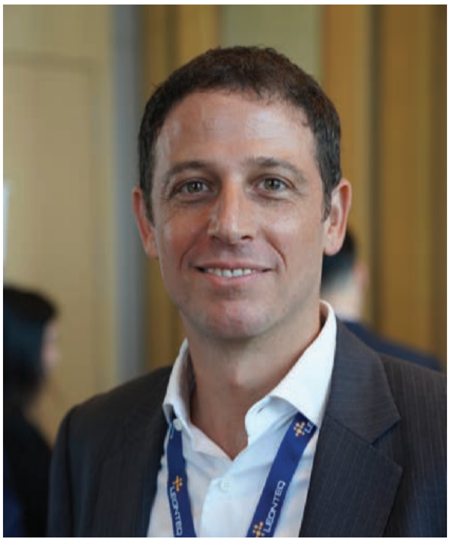
Andrew Daniels
Morningstar

Ryan Lemand
ADS Investment Solutions



Louis Lu
CSOP Asset Management





Key voting poll results

The Hubbis Investment Solutions Forum 2019 event in Hong Kong on September 19th provided fascinating and thought-provoking discussions and talks for the assembled delegates. As usual we also polled the attendees and mined out the following nuggets. Hubbis also conducted some digital polls during the event, with the following key findings.

- 57% of the audience believe that wealth managers prove they can deliver performance
- 46% of attendees stated that Universal Banks are the more attractive model to HNW clients, 54% stated Pure Play Private Banks are the more attractive model for HNW clients
- 65% of the audience agree that Hong Kong is at serious risk of losing all momentum as a credible international wealth management centre?
- Only 53% of attendees use a digital wealth platform, while 50% say they would you use a robo adviser
- 60% of all delegates will start a new VIRTUAL BANK ACCOUNT within the next year due to their relationship with their existing bank in Hong Kong
- Three quarters of the audience say they want to work with YOUNG clients
- Only 57% of attendees see an increased client demand for Impact Investing, SRI and ESG
- The most popular alternatives segment that the audience recommends increased exposure to over the next quarter is Private Equity (55%), followed by Liquid Alternative (27%).
- According to our audience, China equity funds are the most likely to experience the most inflows in the first quarter of 2020

Investment Solutions Forum 2019 - Hong Kong Testimonials

At the Hubbis Investment Solutions Forum 2019 in Hong Kong on September 19th, we asked leading industry participants what they thought about our event today.

We hope you enjoy these Testimonials.
Click on the Speakers Name to view their BIO.
You can also read the transcripts in this document - and click on Watch Video to view their exclusive interview.

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Who did we ask?

Donald Amstad
Chief Operating Officer - APAC Distribution & Head of Investment Specialists - Asia Pacific
Aberdeen Standard Investments
Watch Video

Stewart Aldcroft
Chairman
CitiTrust
Watch Video

Ryan Lemand
Senior Executive Officer, ADSI & Global Head of Wealth and Asset Management, ADS Securities
ADS Investment Solutions
Watch Video

John Robson
Chief Commercial Officer
Quantifeed
Watch Video

David Lai
Partner & Co-Chief Investment Officer
Premia Partners
Watch Video

Simon Ree
Founder
Options Club
Watch Video

Donald Amstad
Chief Operating Officer - APAC Distribution & Head of Investment Specialists - Asia Pacific
Aberdeen Standard Investments
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Michael, thank you so much for having Aberdeen Standard Investments at today's event. Great turnout, great location and a great audience. We've already got terrific feedback on my presentation, so we'll be back next year.

Stewart Aldcroft
Chairman
CitiTrust
Watch Video

Good panel. I think that we needed a bit more discussion among ourselves. I, as you know, am always a little bit controversial. I like to argue with people. I don't like to hear the same answer from five people sitting across the table. If I hear four people saying the same thing, I will say the opposite. I think when you have a panel of people who've got various specialty skills, it's worth trying to bring out from them differences, rather than sameness.

Ryan Lemand
Senior Executive Officer, ADSI & Global Head of Wealth and Asset Management, ADS Securities
ADS Investment Solutions
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I actually loved it. It's very well-organised. The panelists were absolutely awesome. The presentations were very interesting, and I really learned a lot by being here. Thank you so much.

John Robson
Chief Commercial Officer
Quantifeed
Watch Video

I think it's been really interesting. We had some great conversations today, presentations by some of the speakers speaking about the opportunities in emerging markets as we enter very difficult times for investing. So, speakers from the ETF world, speakers from the fund management world, bringing together other speakers from, for example, my area of FinTech; it gives a very broad and interesting overview of what's happening in wealth in Asia.

David Lai
Partner & Co-Chief Investment Officer
Premia Partners
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The event today is fascinating. We have a lot of potential clients that we are facing. Of course, (there are) a lot of speakers on the panels, and also the speaking slots have been providing very good insight. We are fortunate to be part of them. Premia Partners have very (much) enjoyed the Hubbis event.

Simon Ree
Founder
Options Club
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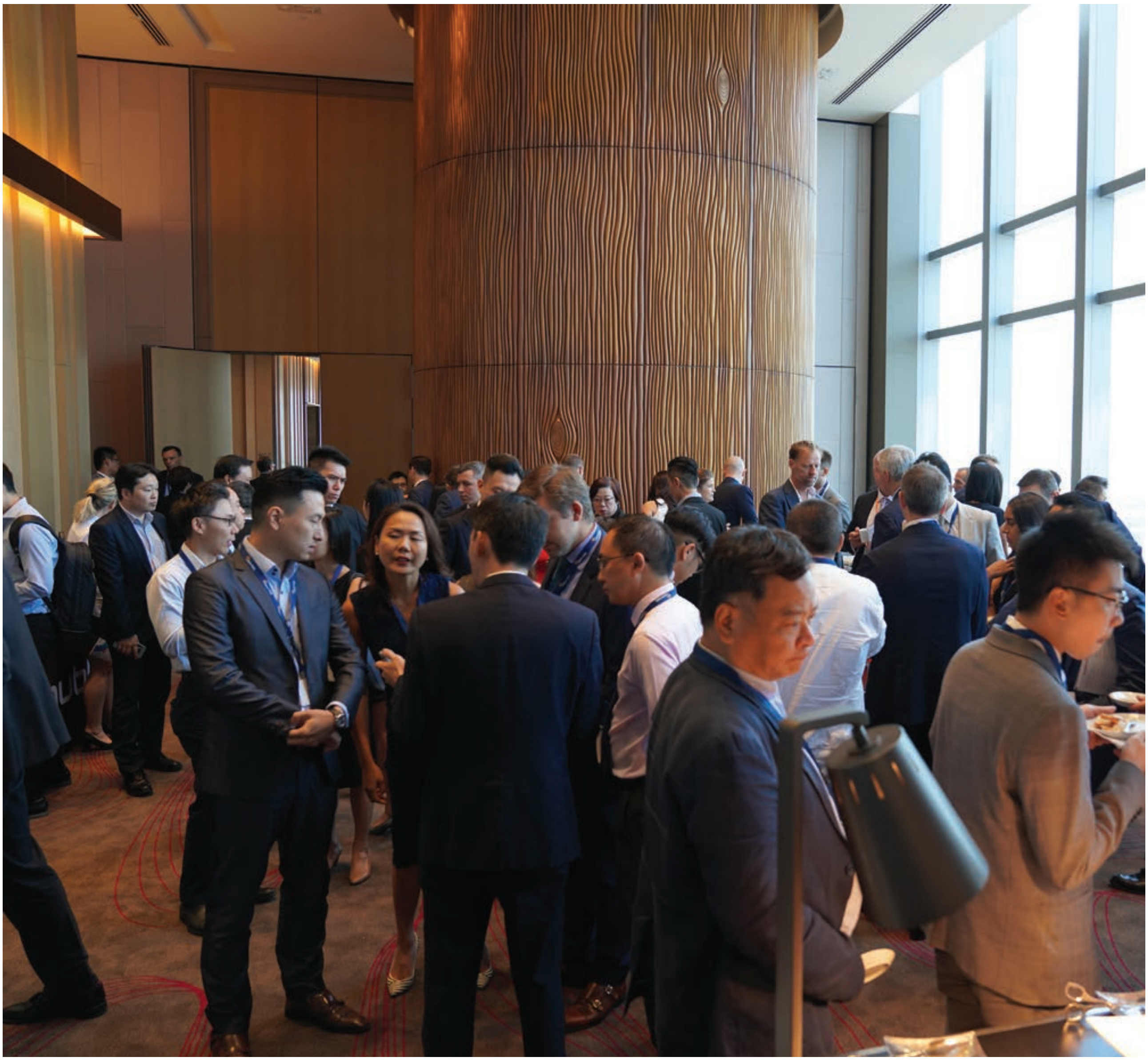
I think today's event has been very entertaining and easy to digest. I really liked the format. Speakers get to speak for about 10 or 15 minutes, and then we have some fairly in-depth panel discussions. So, the format is interesting, there's a good range of speakers, it's easily digestible. I'm really enjoying the day so far.

Testimonials from the audience

"The conferences organised by Hubbis offer relevant, practical and on-the-ground insights about the wealth management industry that practitioners surely don't want to miss."

"One of the best wealth management seminars with thought leading topics and prominent speakers."

"The Investment Solutions Forum is a great opportunity to learn about the leading trends in Private Banking and Wealth Management across Asia. The mix between presentations led by established asset managers and start-up companies were well enjoyable." ***Deborah Rols, Marketing Lead, CryptAM Services.***



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