

WHO'S WHO IN PRIVATE BANKING 2019

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Still upbeat about Asia Pacific prospects

Roundtable participants:

- Benjamin Cavalli, Credit Suisse, Head of Private Banking South Asia and CEO Singapore
- Sim S. Lim, DBS Bank, Group Head of Wealth Management and Consumer Banking
- Omar Shokur, Indosuez Wealth Manager, CEO Asia and Branch Manager Singapore
- August Hatecke, UBS Global Wealth Management, Co-Head of Wealth Management APAC
- Philip Kunz, HSBC Private Banking, Head of Private Banking, Southeast Asia
- Pierre Vrielinck, BNP Paribas, CEO, Wealth Management Asia Pacific

Moderator: Siow Li Sen, *The Business Times*

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TO SAY 2019 has been tough is stating the obvious. Still, private bankers say one should not overstate the challenges. Clients who are entrepreneurs remain upbeat about their businesses; investors are understandably concerned and bankers are stepping up, they tell *The Business Times*.

BT: How was business in first half of 2019?

Benjamin Cavalli: At Credit Suisse, we continue to position ourselves as the Bank for Entrepreneurs in Asia and to capitalise on the long-term growth potential in the region.

With our unique integrated Wealth Management & Connected platform spanning private banking, underwriting and advisory and financing, we continue to serve our ultra-high-net-worth entrepreneur clients across their wealth and business needs in a truly holistic way.

It is especially important that we stay close to our clients in times of uncertainty, advising them on asset allocation of their personal wealth, while executing on landmark transactions, especially in debt underwriting and financing mandates.

We remain focused on strategically recruiting senior bankers that is the right fit for our integrated banking model, to onboard and integrate the new bankers effectively; but equally on increasing the productivity of our existing talent base, and maximising returns from the investments we have already made.

Sim S. Lim: Client sentiment was cautiously optimistic. They have more or less come to terms with market volatility, which has become the new norm following a volatile 2018.

With this perspective, they've returned to the markets and are leveraging our barbell strategy to create well-diversified portfolios to meaningfully participate in this environment – investing in disruptive, "new normal" trends such as e-Commerce and sustainability on one end, and stable income instruments on the other such as S-REITs, which have performed particularly well.

This strategy is further bolstered by expectations around the Fed's changing views – from rate hikes to rate cuts – which bodes well for equity markets.

Omar Shokur: Firstly, having recently just taken over the mantle of CEO Asia, I look forward to continuing the good work and steady growth of the Bank in the region. The first half of 2019 is basically a tale of two rather different quarters. In my view, the markets grew upwards too fast – which meant clients were able to recover losses from the last quarter without trading.

The second quarter saw a lot more volatility which included a strong comeback of client activity despite continued geopolitical uncertainties. Our focus has always been to create long term value for our clients and as a consequence, our business mix is not dependent on "the mood of the day".

As such, we've had a reasonable first half of 2019 even though the financial markets were more difficult to navigate.

BT: Asia Pacific economies continued to slow, what kind of impact do you see on your clients and their businesses?

August Hatecke: I've just returned from our CIO Investment Forums around the region. Clients are generally upbeat about their businesses. They recognise that Asia-Pacific is in a sweet spot. While absolute growth is slowing, it continues to outpace the other regions.

Their concerns on US-China trade tensions remain but as entrepreneurs, they believe that the US and China will negotiate a practical solution albeit a prolonged discussion. In the meantime, they are hopeful that China's measures to support growth will cushion some of the slowdown in the Chinese data. South-east Asia central bankers are likely to do the same, with rate cut expectations in Philippines and Indonesia.

Their confidence is also underpinned by the expectation that South-east Asia countries may benefit from the recalibration of the global supply chain as more companies to look to diversify their manufacturing operations. UBS is confident about the potential of Asia-Pacific. We recently announced our expansion plan in Japan last month.

Philip Kunz: Asian growth is gradually slowing, but not falling off a cliff. Trade is weak, hurting industrial output. As the trade tariffs are focused on goods rather than services, it is no surprise that manufacturing activity has been weaker than services. On the positive side, consumer spending have been relatively robust, especially in Asia. Tariffs have, so far, mainly hit intermediate goods and not consumer goods.

As a result, the growth picture is murky with business confidence faltering and investment spending on hold. Understandably, investors are concerned over the cloudy macro outlook given the lingering manufacturing and earnings slowdown, along with the trade uncertainty that could jeopardise the economic expansion.

Investors are cognisant that the current investment landscape is more complex and nuanced than in the years before.

As a result, there is a rise in clients' demand for portfolio diversification solutions across multiple asset classes. And to manage overall portfolio risk levels, clients are opportunistically buying volatility when it is low, for either



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Pierre Vrielinck: We expect slowing regional growth to affect our clients in terms of the way they operate their businesses and manage investments.

In as uncertain times as these, and with expectations of a synchronised global slowdown, prudence is the watch word.

Recent surveys have pointed to dwindling confidence among Asia companies as the U.S. – China trade war has disrupted supply chains and the jury is out as to when – and the extent to which – tensions will ease.

As a wealth manager, our dialogue tends to focus more on the investment side. In this environment, we see greater client appetite for entrusting the full-time experts to do the job.

As a result, inflows into discretionary portfolio management (DPM) and our contractual advisory solution have risen quite strongly. We have also witnessed growing interest in defensive plays such as gold, an asset class we have been overweight on for some time.

Mr Shokur: So far, Asia Pacific has actually performed rather well in our view. China's growth will still be 6-plus per cent and that of India over 7 per cent. And Vietnam, Taiwan and Japan, to name just a few, are showing a resilient and vibrant economy.

As such, our clients are generally positive and confident with regards to their businesses. Obviously, there are a number of challenges, for example related to trade but the bigger picture is one of optimism rather than panic.

Mr Cavalli: The region overall has remained relatively resilient despite the slowdown in global trade. The biggest challenge for our clients has really been the uncertainty that is being created.

This is particularly true for any businesses with substantial cross border flow or dependencies. The uncertainty created by the constantly evolving trade war rhetoric makes it difficult to make long term plans and consequently will reduce the scope for investment.

Even countries like Vietnam, which are perceived as being potential beneficiaries of the escalating trade war, are vulnerable to tariffs.

This risk aversion is also reflected in our clients investment decisions, with a strong bias towards cash and solutions that offer protection.

BT: Commodities such as gold and oil had decent rallies in Q2, was there much interest in these assets from private banking clients?

Mr Lim: Gold is one of the alternative asset classes that we have been advising clients to increase exposure to this year. We've seen significant increase in both transactions and appetite for gold products (i.e. physical, financial gold, gold derivatives and gold linked structured notes).

We've also noticed higher activity for oil due to greater volatility, but amongst our clients, oil transactions remain mainly speculative and short term investments.

Mr Shokur: Client appetite for gold, both in physical form as well as "paper gold" has been strong.

We have been bullish on gold for a long time now and believe it has an important role to play in our clients' portfolios, as it generally reduces the overall volatility of an investment portfolio.

At the same time we still foresee a higher gold price going forward, supported by geopolitical tensions around the world and an anticipation of a decrease in interest rates in the United States.

With regards to oil, wealth management clients generally prefer exposure to a broader basket of commodities rather than oil in isolation. We have seen reasonable appetite in commodity funds and hedge funds.

Mr Hatecke: Our clients are always interested in assets that rally! However, we have been seeing consistent interest across multiple asset classes.

Gold is typically a "flight to safety" asset class and we are not seeing the levels of concern about the global economy from our clients that mean they are seeking longer term safe haven assets.

In fact, in my recent discussions with clients, they are actively seeking new opportunities.

As a firm, we have been advocating a whole-portfolio approach among our clients, defining their investment needs in relation to their short term liquidity, longer term funding requirements, and legacy considerations such as family succession or philanthropy.

This means that clients have a longer time horizon for returns on their investments. For example, those worried about the state of the short-term economic cycle can look to invest in secular trends including fintech, medical devices, and technological disruption.

BT: There's a lot of talk on green and sustainable investment, but is there real interest or is it still at the token stage?

Mr Hatecke: There is no doubt that Sustainable Investing is going mainstream. The early misconception, that SI is philanthropy, is fast disappearing. Last year, UBS launched the world's first sustainable investing mandate based on our unique 100 per cent sustainable Strategic Asset Allocation. It is our best performing mandate year-to-date +13 per cent.

In all, our clients have committed over US\$6 billion in SI-related investments in the past 1.5 years. Pretty impressive!

Global challenges bring global opportunities. Companies that can solve the world's problems will stand to benefit.

We capture these opportunities for our clients with SI. It is an innovative way of investing and it is here to stay. UBS is proud to be a pioneer here.

Mr Cavalli: The interest is real. To date, globally at Credit Suisse there is over US\$25 billion of assets that incorporate sustainability criteria and in Asia this is more than US\$1.3 billion.

In the last 12 months, we have seen growth in clients' investments into various sustainable solutions such as those that capture the electric vehicles transition, climate neutral property funds as well as mandates that incorporate ESG considerations.

BT: What's your outlook for the rest of 2019?

Mr Kunz: We are encouraging our clients to be prudent as both market upside and downside exist. Our cautious implementation means that our overall risk stance is close to neutral.

Recently, we took partial profits on both our US and China equity positions, while still keeping a small overweight in these markets. We still believe there will be medium-term upside to equity markets, and hence we remain invested. Our higher than normal cash balance also allows us to take advantage of opportunities when they present themselves. With our strong conviction that rates are likely to remain lower for longer, we focus on a buy-and-hold strategy of shorter dated bonds, to address the risk of widening spreads if growth were to slow down more sharply.

We maintain a preference for US corporate investment grade bonds compared to developed market sovereign bonds. We are overweight in Asian credit to capture the attractive carry for this year.

Mr Hatecke: In our CIO's global tactical asset allocation, we are overweight Global Equities, preferring US and Japan equities to the Eurozone. We are neutral on Asia ex-Japan equities and prefer bottom up selection of cash flow generative stocks for higher dividend payout. In China, we like stocks that can benefit from ongoing policy support i.e. banks, materials, real estate and consumer staples.

We are short the USD versus GBP and overweight a basket of high-yielding emerging market currencies (INR-Indian rupee, IDR-Indonesian rupiah, ZAR-South African rand) versus a basket of lower-yielding currencies (AUD, NZD and TWD-Taiwan dollar).

Mr Lim: Given today's unpredictability, near-zero rates and lower-for-longer environment, our advice for investors is to engage markets through long-term, multi-asset, and globally-oriented portfolios. The underlying strategy is to "barbell": buying into companies plugged into secular growth themes such as sustainability, whilst holding income-generating assets.

Mr Cavalli: In our investment strategy, equities continue to offer a positive return outlook even after the rally. Our view that the current weakness in manufacturing will not lead to recessionary outcomes in other more service-related sectors is key.

Fed Chairman Jerome Powell's most recent testimony to the US Congress has confirmed that the Fed is ready to ease in order to prolong the current growth cycle. We thus retain the levels of our strategic equity allocations. However, due to the asset class's strong performance, we take profit on our tactical equity overweight.

Risks of a temporary spike in equity volatility have also increased. In fixed income, dovish central banks should continue to provide a positive backdrop. But there is a risk that yields could rise should the Fed disappoint currently elevated expectations.

Thus, we consider government bonds expensive and prefer a moderate tactical underweight. High-yield and EM hard currency bonds offer attractive return potential.