FORGET ABOUT YIELD - HOW TO DELIVER PERFORMANCE

According to panellists at Hubbis' SWISS-ASIA Wealth Exchange 2014 in Zurich in late October, delivering performance has taken precedence over achieving a certain yield. The spotlight has also sharpened on transparency around performance and managing client expectations.

PANEL MEMBERS

LEI ZHU
Credit Suisse

THOMAS ZGRAGGEN
EFG Asset Management

MARK BROWNE
Secure Wealth Management

While Asian – and most other – markets around the world are performing considerably better than they have done in recent years, the chances of capturing alpha are lower than they were a decade ago.

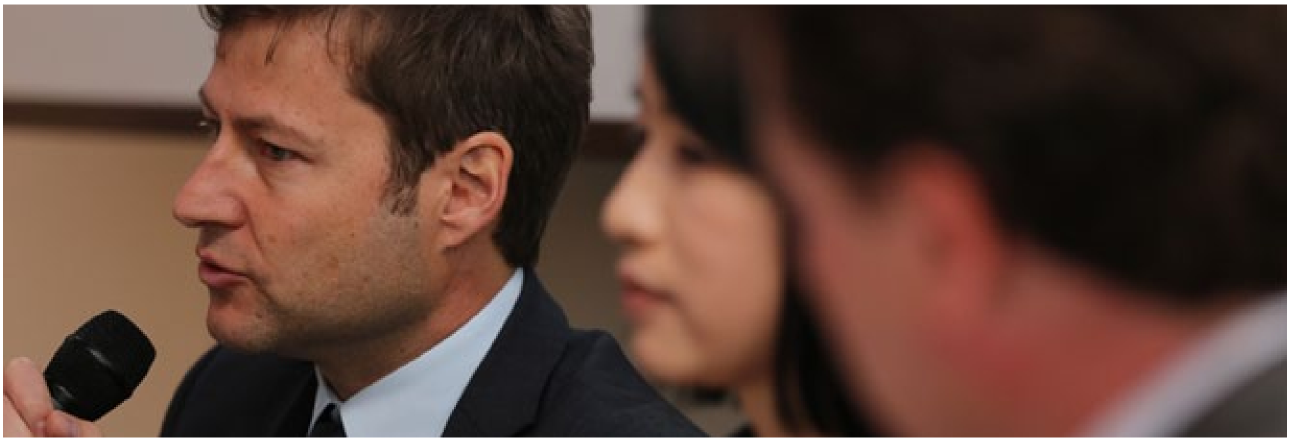
Finding a way to respond to this and meet the demands of investors for investment performance – along with greater clarity and fewer surprises in relation to that performance – has become a priority.

This was according to panel speakers at Hubbis' SWISS-ASIA Wealth Exchange 2014 in Zurich in late October.

MEETING CHANGING INVESTOR APPETITE

To keep up with the changing needs of customers, Mark Browne, head of business development for Secure Wealth Management in Switzerland, believes the industry must provide something which is eminently transparent, liquid and client friendly.

The desire for transparency, in particular, is coming from the fact that investors are chasing alpha, so are seeking opportunities which can provide a certain upside to their investment. However, it is not always possible to achieve that. "There is only so



LEI ZHU

Credit Suisse

much alpha to go round," says Browne, "and frankly, there are far too many people in the wealth management industry to capture it all."

Meanwhile, in comparison with European investors, which are relatively more sophisticated and are looking at risk/reward, Asian clients are much more focused on the hunt for absolute yield, says Lei Zhu, senior portfolio manager, Asian fixed income, at Credit Suisse.

Adds Thomas Zgraggen, head of portfolio management for EFG Asset Management in Switzerland: "We tend to see our European clients with more investment solutions which have lower target returns, more in line with conservative risk profiles, whereas in Asia, there have higher target-return profiles."

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> "Product manufacturers are trying to help clients achieve targeted returns while lowering the cost of transactions for the relevant investment vehicle they create"

Given the shrinking size of the available amount of alpha, however, product manufacturers are trying to help clients

"I think the focus still has to be very much on the hidden killers of performance – costs," says Browne, whose firm delivers

THOMAS ZGRAGGEN

EFG Asset Management

MARK BROWNE

Secure Wealth Management

investment ideas through ETFs to reduce transaction fees to a fraction of most other products.

CONSIDERATION FOR HOME BIAS

Noticeable about most Asian investors, said speakers, is their generally strong home bias.

As a result, they tend to allocate a large chunk of their portfolios to investments in their own region, and especially in equity, fixed income and properties.

Compared with Europe, where clients tend to diversify their portfolio via different currencies, Zgraggen observes that despite advice, some Asian clients hold on to their home bias and have a strong emphasis on the local market in the portfolio.

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Zhu, who is originally from China and has worked in Singapore for the past 10 years, suggests that the home bias among Asians is fairly reasonable and it isn’t a cause for concern.

“Asian investors have home bias for a good reason,” she explains. “If you look at the risk-adjusted returns, with low volatility at around 2% to 3%, returns over the past 10 years have been about 7%. And products which are closer to home have a higher rating, so it’s a very natural choice.”

SLIGHTLY BULLISH ON US EQUITIES

Although US equity markets have been quite volatile, Zgraggen advises investors to neither be too bearish nor too proactive right now. While he doesn’t expect investment returns to be too high, he says he sees trends and momentum coming back positively in the US again.

Browne shares the opinion that over the next 12 to 18 months, it isn’t a good idea to be bearish.

He believes that the US is set to perform well because over the next few years, the shale gas which has been found will replace the huge deficit created by energy imports. He also points to the high cash balances on US corporate balance sheets, being re-geared either through buy-backs or M&A deals.

The goal should be to use the dips to buy a stock or take a position and settle down.

Ultimately, said the panel, alpha is available to enable clients to achieve performance from the market and local knowledge is required.

Perhaps a better way to deliver good returns is to make investments more cost-effective and reduce transaction expenses. ■