

WHO'S WHO IN PRIVATE BANKING 2018

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Roundtable participants:

- August Hatecke, UBS head of wealth management SEA;
- Francesco de Ferrari, Credit Suisse head of private banking Asia-Pacific, CEO SEA & frontier markets;
- Tan Su Shan, DBS Bank group head of consumer banking & wealth management;
- Lok Yim, Deutsche Bank head of wealth management Asia-Pacific;
- Philip Kunz, HSBC head of private banking SEA;
- Pierre Masclat, Indosuez wealth management Asia CEO and Singapore branch manager;
- Steven Lo, Citi private bank, regional head, Asia-Pacific;
- Ong Yeng Fang, UOB head of private bank and managing director.
- Ricardo Sanchez-Moreno, BNP Paribas head of wealth management, SEA;

Moderator: Siow Li Sen, The Business Times



"In 2017, we continued to see strong growth in net new money inflows from clients referred to HSBC Private Banking through internal collaboration with our global businesses," says Mr Kuntz.



"Citi Private Bank had one of its best years ever in 2017 with record growth across all product lines and geography. . . Revenue growth yoy was 24% and net income yoy was 48%," says Mr Lo.



"Business-wise, Indosuez wealth management saw a double-digit growth in revenue and registered strong solid client performance, bolstered by supportive financial markets," says Mr Masclat.

2017 was a good year; what's next?

Private banks enjoyed a record year in 2017 with many posting double-digit growth in AUMs, income and profit

LAST year was a banner year for private banks as markets boomed, reinforcing Asia's pivotal role in boosting the fortunes of the industry. *The Business Times* held a discussion with the main players in the sector to get a picture of their business and outlook for 2018.

BT: How was your business in 2017?

August Hatecke: UBS wealth management Asia-Pacific achieved record financial results for full-year 2017. Invested assets reached a record high of Swiss francs (CHF) 373 billion (US\$382.8 billion), an increase of 28 per cent year over year and the strongest growth since 2010. Net new money was excellent at CHF 28.4 billion, an increase of 37 per cent year over year. UBS wealth management Asia-Pacific made a strong profit contribution of 21 per cent to the bank's global wealth management division globally.

The results continue the bank's positive growth trajectory in the region in recent years. Over the last two years, UBS wealth management APAC's invested assets grew at a compound annual rate of 20 per cent, even as client adviser numbers have remained relatively consistent. Net new money of CHF 49.2 billion has been generated since 2015. It was also a record year for our mandates platforms which saw a significant growth in invested assets and client participation. Assets under management (AUM) under mandates rose 40 per cent.

Francesco de Ferrari: In 2017, our private banking business in Asia delivered another year of strong growth crossing the US\$200 billion threshold (CHF 197 billion) in AUM, continuing the momentum of recent years and outperforming the industry. Our wealth management & connected (WMC) business spanning private banking, underwriting and advisory and financing holistically serves the nexus of our ultra high net worth clients' wealth and business needs. The WMC business grew revenues by 22 per cent to CHF2.3 billion and pre-tax income (PTI) by more than 60 per cent to CHF 799 million.

Private banking is a key contributor to these results, delivering 50 per cent higher PTI at over CHF 540 million, and 17 per cent higher revenues at CHF 1.6 billion. We saw strong agility across all three revenue lines, including growing recurring commissions and fees by 19 per cent and transaction-based revenues by 29 per cent.

Tan Su Shan: We hit several milestones in 2017. Our total wealth management AUM reached S\$206 billion (year on year: +24 per cent). Our total income also increased by 25 per cent yoy to a record S\$2.11 billion, driven by markets as well as new investment and insurance products launched this year.

Following the successful migration of ANZ's wealth management and retail banking business in five markets

in Singapore, Hong Kong, Mainland China, Taiwan and Indonesia, it will take our business to the next level.

Lok Yim: The business achieved double-digit growth in both assets under management and revenue last year. Our North Asia business achieved double-digit growth in revenue. We focused even more on our Dubai office where we see a huge opportunity for our non-resident Indian clients segment given that it serves as a crossroads between Europe, Africa, the Middle East and Asia.

With the bank's huge support for wealth management business in APAC, we made more than 50 hires in different functionalities including client coverage, product, compliance, project management, IT, compliance, Know-Your-Client in Hong Kong, Singapore and Dubai.

Philip Kunz: In 2017, we continued to see strong growth in net new money inflows from clients referred to HSBC Private Banking through internal collaboration with our global businesses, in particular, our corporate banking team. This is in line with Singapore's increasing importance as a regional hub for global companies where there are now over 7,000 multinational corporations and 60 per cent have regional responsibilities.

Pierre Masclat: 2017 was a turning point for us at Indosuez Wealth Management. We took the opportunity of the competitive dynamics in the wealth management industry by acquiring CIC's private banking operations in Asia. This increased our staff strength by 60 per cent in the region. Business-wise, we saw a double-digit growth in revenue and registered strong solid client performance, bolstered by supportive financial markets.

We will continue to strengthen our footprint in on-shore markets such as Singapore and Hong Kong by hiring experienced entrepreneurial talent and also by ramping up our external communications. The acquisition has undoubtedly allowed us to increase our visibility in the market among prospective clients and also within the industry allowing us the opportunity to hire senior relationship managers. In addition to the staff that came in through the CIC acquisition, we added 10 per cent more relationship managers to our ranks.

Steven Lo: Citi Private Bank had one of its best years ever in 2017 with record growth across all product lines and geography. The year started with strong momentum which was sustained throughout and until the end of the year. Revenue growth yoy was 24 per cent and net income yoy was 48 per cent powered by a 60 per cent increase in client acquisition.

Ong Yeng Fang: Over the last three years, we have more than doubled the number of our private bankers in Singapore and enhanced our platform and product capabilities. These investments have helped to generate a 35 per cent increase in UOB's total wealth management assets under

management in 2017. Total wealth management has reached S\$104 billion and comprises its privilege banking and high net worth segments.

BT: Many have reported strong results, what were the challenges amid the plenty?

Mr de Ferrari: Notwithstanding this outstanding financial performance against such long-term secular growth prospects in the region, I believe that as an industry and not just at Credit Suisse, we must not be complacent and lose sight of the need to change and evolve for the long term, in such a rapidly changing environment, from regulatory expectations around transparency, suitability and personal accountability, to a new generation of clients' changing preferences, and new competitors be it local players or fintech incumbents.

The world is moving at such a pace that we cannot just focus on our own industry, but need to look beyond and outside. Looking ahead, our focus at Credit Suisse is beyond just 2018 but in the coming five years, to stay head of the game in adapting to the changing environment, and to ensure we are "Fit for the Future".

Ricardo Sanchez-Moreno: Growth has indeed been the mark of 2017 for BNP Paribas Wealth Management in the region. Adapting to a new digital world and improving overall operational efficiency have been and remain key in an environment of increasing operational complexity and costs.

Mr Masclat: The transnational regulatory environment continues to be a dominant challenge for banks in the region. Banks must embrace and implement regulation fully and promptly, with the aim of increasing value and experience for their clients. As wealth managers, we must be able to clearly articulate and demonstrate the value of regulatory-driven changes for our clients, including higher service quality, helping clients better understand their risk appetite and most importantly, provide greater transparency over products and pricing models.

With the changing and evolving financial markets and regulatory environment, it is necessary to continue to provide our clients with local access to local talent with deep knowledge and expertise in all locations we operate.

BT: What's your 2018 outlook?

Mr de Ferrari: In Q4 2017 and the start of the year, our message to clients was to reposition portfolios away from low-yielding/long-duration assets and move into assets that can benefit from a stronger growth (and potentially higher inflation) environment. This approach has paid off but we also now see emerging opportunities in the fixed-income space as interest rates have moved to levels which are far more attractive.

Structurally we have seen clients holding relatively larger cash balances last year as they waited for more volatile markets/better entry opportunities and those clients are now actively looking to add to their portfolios across asset classes.

Mr Masclat: With regards to emerging markets, these are still under owned and we remain convinced by long-term prospects of EM, especially Asia. In the long term, we favour specific thematic ideas like ageing population, new consuming trends and disruptive technologies. For fixed income, we remain cautious as tight spreads make bonds vulnerable for any corporate-specific market impact or event. Rates will be moving higher, albeit slowly, central banks will be the main driver for yields.

For commodities, we see oil at this level stabilising for the year. Strong demand being offset by the increased US shale production and a possible scenario of Russia stepping out of the Opec production cuts will largely keep the market equilibrium as-is. For gold, we are positive over the medium term and advise our clients to buy on dips. For base metals, we see short-term profit-taking but remain positive in general.

Mr Hatecke: In terms of investment outlook for 2018, we recommend that investors continue to maintain a balanced investment portfolio. Markets are likely to be impacted by the ongoing withdrawal of liquidity by central banks. However, UBS CIO believes that equities can continue to deliver returns in an environment of strong earnings growth and inflation as well as rates that rise gradually. In our country allocation, we prefer regions that perform better later in the cycle, such as Asia, the eurozone and emerging markets.

Mr Lo: In our 2018 investment outlooks, we highlighted our expectations for higher growth and higher interest rates, which are likely to be accompanied by higher volatility. We believe the past two weeks of market shake-up is a restoration towards more normal market conditions after an unusually long period of low volatility.

However, this does not represent the end of this business cycle and we continue to expect positive investment returns in the coming year where equities are still likely to outperform. Our clients are generally receptive to this view. They have not aggressively participated in the rally and have significant cash balances that can be deployed to take advantage of short-term market setbacks.

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Creating a sustainable legacy in Asia

Some family offices are shifting their investment strategy to impact investing, led by visionary next-generation family members. BY ANURAG MAHESH

ASIA continues to lead the way as the centre of innovation and wealth. According to the UBS/PwC Billionaires Report 2017, a new billionaire was created in Asia almost every other day in 2016. For the first time, Asia has the highest number of billionaires (637) in the world compared to 563 from the US.

There were 162 new entrants to the billionaires list of Asia in 2016, out of which as many as 101 were in China. Billionaire wealth in other key Asian markets (Hong Kong, Singapore and Japan) grew by almost 30 per cent. The number of Asia's female billionaires has grown by almost 13 times from 2005 to 2016.

Interestingly, the combined net worth of Asian billionaires grew by almost a third in 2016, from US\$1.5 trillion to US\$2 trillion. If the current trend continues, the total wealth of Asian billionaires will overtake that of their counterparts in the US within four years.

One unique aspect of Asian wealth is that more than 85 per cent of its billionaires are first-generation business owners. As a result, the average age of an Asian billionaire is 59 years; in China it is 55 years.

After working hard to build business empires over the past three to four decades, the pioneering entrepreneurial families in Asia are ready to hand over charge to the next generation. In Asia-Pacific, it is projected that around 45 per cent of the wealth will be transferred in the next five years, and around 70 per cent in the next 10 years. Succession planning has been identified as one of the top priorities among Asia's wealthiest families.

The Global Family Office Report 2017 published by UBS, in partnership with Campden Wealth Research, notes that in Singapore, 67 per cent of business families are in the process of developing a succession plan, while 29 per cent of Hong Kong families are doing so. Overall, in Asia-Pacific 48.4 per cent of fam-



Mr Mahesh says succession planning has been identified as one of the top priorities among Asia's wealthiest families.

ilies are in the process of developing a succession plan.

Business families need to ensure that there is a smooth transfer of wealth from one generation to the next. In Asia, there is greater emphasis on wealth preservation rather than wealth creation. Business continuity for generations to come is a top priority.

SUCCESSION PLANNING

Many families set up committees (for example, a family council) to groom the next generation to be responsible owners in the future and to set the strategic direction on how to control their wealth and businesses over the generations to come.

Before setting up such a council, family stakeholders need to come together and decide on what they seek to achieve in each of the dimensions of family and business continuity planning. The trend is towards formalising such agreed guiding principles and decision-making framework in a family constitution. This is also where it can be helpful to in-

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ILLUSTRATION: CREATIVE COMMONS

volve an experienced, professional and neutral external party to facilitate the discussions and eventually ensure a productive outcome.

As part of their aspirations to create a multi-generational governance framework, more and more families with substantial wealth are considering setting a family office entity outside of their operating businesses to help them manage their financial assets. Some also rethink and professionalise their philanthropic engagements, be it through putting a proper giving strategy in place, supported by properly set up legal structures (for example a foundation or charitable trust), or by embracing more innovative and collaborative ways to solve some of society's most important issues around topics such as education, health, poverty, the environment and so on.

We have observed that the second or third generations of Asian families are more involved in the family office compared to their peers in other regions. They may contribute

to the family office by joining the investment advisory board or assuming managerial or executive roles.

Typically educated in the West, their cross-cultural mindset paired with their millennial ambitions to make a positive impact in society, will lead to a keenness in exploring ways and opportunities to ensure that sustainability is part of the family's agenda, a change of paradigm from previous generations.

SHIFTING STRATEGY

In order to follow through on this, a number of family offices in the region have started to shift their investment strategy to impact investing, led by visionary next generation family members, striving to align their family values with their investment practices.

The numbers underline this trend. According to the latest UBS Global Family Office Report 2017, 26.7 per cent of family offices in Asia-Pacific are involved in impact investing. In Singa-

pore, 29 per cent of the family offices indicated that they embrace the concept and are active in impact investing. We expect to see these numbers grow in the future driven by the emergence of networks of like-minded investors to accelerate problem solving through collaborative models.

Traditional top-down succession planning models, while still relevant in some situations, are witnessing an evolution globally and in Asia-Pacific. The new paradigm when it comes to family transitions is around multi-generational family engagements, professional setups and sound governance benefiting not only the family but also making an impact on the larger community. By choosing a partner that deeply understands these developments and is able to support you in your legacy aspirations, you and your business will be able to thrive for generations to come.

■ The writer is head global family office group Asia-Pacific, UBS Wealth Management

The rise of ESG investing in Asia

Responsible investing has started to enter the mainstream.

BY FAN CHEUK WAN

BY incorporating environmental, social and governance (ESG) factors into investment decisions, responsible investment is no longer a niche area in Asia. Although the Global Sustainable Investment Alliance (GSIA) states that assets managed under responsible investment strategies remains very low in Asia ex-Japan at only 0.8 per cent of total assets under professional management, well below Europe's 53 per cent, the region presents significant growth opportunities for sustainable investments in the coming years.

ESG investing is becoming increasingly relevant and appealing due to the region's urgent environmental concerns.

Asia's government pension funds are taking the lead to integrate ESG principles in their investment process. Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund with US\$1.3 trillion under management, and South Korea's National Pension Service (NPS), have made significant allocations to ESG strategies. Japan's GPIF has decided to put US\$8.9 billion into three ESG indices to raise its allocation to ESG investments to 10 per cent of its equity holdings from 3 per cent in July.

South Korea's NPS has signed up to the Principles for Responsible Investment (PRI) while Taiwan's Bureau of Labour Funds (BLF) has set aside US\$2.4 billion for the Global ESG Quality Fix Equity Indexation mandate.

POLICY TAILWINDS SUPPORT ADOPTION OF ESG FACTORS

The active engagement of government pension funds and sovereign wealth funds offers a big boost for ESG investing across Asia. According to the CFA Institute, Asia's current ESG assets under management reached US\$500 billion, accounting for 2.2 per cent of the US\$23 trillion ESG assets managed globally.

Japan accounts for about 90 per cent of Asia's ESG assets under management and other Asian countries are expected to catch up on sustainable investments.

ESG assets under management in Asia ex-Japan are estimated to reach US\$52 billion, mainly led by Hong Kong, South Korea and Malaysia.



Ms Fan says the active engagement of government pension funds and sovereign wealth funds offers a big boost for ESG investing across Asia.

Stock exchanges in Singapore, Hong Kong, Malaysia and Thailand have mandated sustainability reporting from their listed companies. The Singapore Exchange requires inclusion of a materiality analysis, performance indicators and a board statement for a sustainability report as mandatory for listed companies.

RAPID GROWTH OF GREEN INVESTMENTS IN CHINA

After the United States retreated from the Paris accord, China has stepped up collaboration with its European counterparts to assume global leadership to fight climate change. At the 19th National Party Congress, Chinese President Xi Jinping reiterated China's strong policy focus on green development. Since 2016, China has overtaken the US to become the world's largest issuer of green bonds. China issued US\$36 billion worth of green bonds in 2016, up from almost none in 2015, accounting for 39 per cent of the world's total green bonds issuance.

To capitalise ample market liquidity to finance low-carbon projects, China has established five "green finance" pilot zones in Guangdong, Guizhou, Jiangxi, Zhejiang and Xinjiang. Hydro, wind, solar and nuclear energy accounted for 20 per cent of China's total energy consumption in 2016, up from 14.5 per cent in 2012.

China has announced plans to have 20 per cent of vehicles running on alternative fuel by 2025.

More stringent environmental protection regulations and higher mandatory energy efficiency targets will drive significant growth in green investments in China in the next five years. The China-Hong Kong Bond Connect offers a direct channel for foreign investors to purchase Chinese green bonds.

DEMAND FROM NEXT-GEN INVESTORS FOR ESG STRATEGIES

With the upcoming transfer of significant wealth to the millennial generation in Asia over the next decade, the new generation of investors are more socially conscious and environmentally friendly than their parents. According to findings from the 2017 Essence of Enterprise Report issued by HSBC Private Banking, Asian entrepreneurs in their 20s prioritise their influence and impact on local community more than the older entrepreneurs. The new generation invests in things that they believe in and support.

We expect increasing inflows into ESG assets in Asia as the millennial wealth owners are showing strong interest in ESG investment opportunities with exposure to green energy, sustainable infrastructure, socially responsible and ethical companies.

In our view, ESG factors are useful parameters to help investors manage financial risks arising from environmental events, reputational damage and governance issues. Notably, the MSCI ESG equity indices have outperformed the MSCI EM Index by 16 per cent over the past five years, showing that ESG factors are arguably more relevant in emerging markets as they are less efficient than the developed markets.

Our analysis shows that half of the key medium-term value drivers of emerging market companies are ESG-related. Driven by the tailwinds of strong government support and rising sustainable awareness from the new generation of private investors, we expect to see broader adoption of ESG factors into mainstream investment decisions in Asia.

■ The writer is head of investment strategy and advisory, Asia, HSBC Private Banking

Investing in European real estate: Opportunities and strategies

European property as an asset class offers a powerful value proposition and can complement a domestic portfolio. BY DONALD RICE

SENTIMENT towards European real estate remains upbeat and is further supported by the favourable macroeconomic outlook.

Given the recent turbulence in the global equity markets, investors are increasingly seeking comfort and stability in traditional bricks and mortar. However, many investors find themselves at a crossroads. They are already adequately exposed to their domestic market, but may be reluctant to venture further afield to other regions. Property investors can be forgiven for passing up the skyrocketing Hong Kong market and some pundits have declared the Australian party to be over.

So where does that leave investors? Instead of contemplating a European vacation, why not consider the European property market? The region's real estate market is expected to deliver both attractive rental and capital growth in the coming years.

ECONOMIC BACKDROP

Until recently, Asian investors have tended to overlook Europe. However, the macroeconomic environment for European property remains rather favourable. The overall economic recovery has continued to strengthen and the lingering political risks that characterised much of 2017 have now dissipated. Newly elected centrist parties in the Netherlands and France, may even lead to continued economic reforms.

It is important to note that the eurozone had its strongest growth in the last 10 years at 2.4 per cent in the past calendar year and is expected to accelerate to 2.6 per cent in 2018. The European Central Bank will likely refrain from raising interest rates in 2018 as core inflation remains tame at 1 per cent.

This vigorous economic growth coupled with an upswing in the labour market, has resulted in a boost for the region's real estate market. Unemployment in the eurozone continues to decline and this trend is expected to accelerate in 2018. In particular, Germany and the Netherlands are undergoing a categorical pick-up of economic growth, while Ireland and Spain continue to show similar signs of strength.

At this juncture it is important to point out that there is a distinct disequilibrium between supply and demand in Europe. The aftermath of the global financial crisis and the lingering effects of the European debt crisis has resulted in the fact that comple-



Mr Rice says a pan-European approach also benefits from the rental cycle differences between countries and sectors.

tion levels of new property space is likely to stay low for the foreseeable future.

Concurrently the continuing economic recovery is expected to lead to a demand overhang in rental markets. Declining vacancy rates in most office rental markets across Europe continues to persist. This has the additional knock-on effect that as supply becomes more limited, landlords will be in a position to negotiate higher rents.

WHY NOW?

Structural trends and social themes have gained importance in the context of Europe and provide yet another dimension to the opportunity set.

■ Global logistics and urban warehouses are likely to be big beneficiaries of the long-term trends in retail e-commerce. It is likely that demand for space, particularly centrally located logistics properties with connectivity to high-speed fibre-optic networks, will continue to increase in years to come. Not only does this driver influence the B2C online retail play but also the rapid rise of B2B space.

■ Persistent demographic trends will continue to underpin the need to increase the supply of real estate relating to health care. This should be particularly true for the ageing population.

■ Banking regulations and the fall-out from Brexit has served to increase the focus on commercial real estate, particularly evident in Ireland and Germany.

■ A new trend that has caught the attention of property investors is the

emergence of co-working spaces and platforms, ideally targeting startups and entrepreneurs.

In contrast to the past, the focus of occupants and investors is the design of flexible work space that older office spaces cannot provide.

HOW TO PLAY IT

The choice of investment style is a key determinant for any real estate investment. Depending on their risk/return characteristics, real estate investments can be divided into core, core-plus, value-added and opportunistic.

Core represents properties in good locations and have a high standard of quality, alongside existing leases. As such, returns are mainly generated by the rental income component. The core-plus strategy deviates from traditional core in that properties are less centrally located and typically hold shorter-term leases.

Both income and value enhancement play a role in the value-added approach. In other words, value is enhanced through renovations, the negotiation of new leases and non-speculative project developments. The debt portion is also typically higher for value-add as loan to value ratios range between 40 per cent and 60 per cent. Lastly, opportunistic strategies have an even higher risk profile and contain a highly speculative element with loan to value ratios above 70 per cent.

CONSIDERATIONS & RISKS

Steeper and faster than anticipated pace of the ECB tightening combined with a softening in the economic momentum could undermine the growth prospects for the European property markets. Although numerous political hurdles were surmounted in 2017, the existence of further risks related to the EU exit negotiations with the UK as well as the Italian elections could have the potential to dampen the economic pace.

European real estate as an asset class provides a powerful value proposition when compared to other regional markets and can serve as a complement to a domestic portfolio. Investors seeking higher returns may wish to seek exposure to value-added strategies. A pan-European approach also benefits from the rental cycle differences between countries and sectors, thus creating another means of diversification.

■ The writer is head of alternative fund solutions private banking Asia-Pacific, Credit Suisse

Cryptocurrencies – a technological disruption and a challenge for all

Aside from acceptance and trust, issues include high volatility, price manipulations, data loss and theft, technical woes, delays and some high transaction costs. BY MARKUS MULLER

THE recent interest in cryptocurrencies and their volatile price developments are in no small part a product of investors' quest for financial return. However, the low-interest environment of developed countries, especially in Europe, as well as dissatisfaction with the expansionary monetary policy pursued by major central banks over the past few years, have played a role as well, as have technological advances, especially in Asia.

First of all, it's worth defining the meaning of cryptocurrency. At present we count roughly 1,500 of such virtual currencies worldwide. Not all of these are meant for public use: some are dedicated to a specific sector, such as energy trading, others operate exclusively as currencies for Internet payments, yet others are based on what are known as decentralised applications, focused on specific usages defined by their developers.

But they all have one thing in common: they rely on an electronic decentralised payment system known as distributed ledger, which does not need central banks, intermediaries or a central technical infrastructure such as an exchange to work. Exchanges of digital values and goods are made directly between two individuals, with the oversight taken care of by the network itself, in a fashion akin to peer-to-peer oversight.

INTRINSIC VALUE

Ever since the convertibility of paper money into gold was abandoned, which in the US happened in 1971, the intrinsic value of money has become a fuzzy subject, ruled by complex economic and monetary mechanisms that increasingly fail to reassure consumers. This unease has risen in the wake of the various monetary easing programmes introduced by many central banks over the past 10 years.

As a result, a growing number of people feel that the value of their wages is being systematically eroded. Indeed, real wages have stagnated or even fallen in several developed countries over the past few decades.



Mr Muller says the likeliest way cryptocurrencies can work is for them to be complementary to established currencies, not as alternatives to them.

It is worth recalling that, as part of a socio-economic ecosystem, money as we know it has three functions: a medium of exchange, a measure of value and a store of value. While cryptocurrencies often struggle to fulfil the first two in a satisfying way, it is on the last point that many investors have pinned their hopes, as conventional currencies are seen to fall short.

Going a bit further, some are fearful that a cashless society may pave the way for total surveillance, since every electronic transaction leaves a trail.

In several European countries governments already limit the amount of money citizens can withdraw from banks in cash on any given day – a form of daily nationalisation of private assets. As all of these things are happening at a time when some people have little trust in governments and central banks, it is no wonder certain people look for alternatives. Indeed, from a societal point of view, cryptocurrencies seem to some people to be an idea whose time has come. Now that technology allows us to disintermediate central au-

thorities from the creation of money, the genie is out of the bottle.

On the other hand, the current batch of cryptocurrencies come with their own shortcomings. High volatility, price manipulations, data loss and outright data theft are but a few of their most obvious vulnerabilities.

Another raft of issues are technical problems, delays, and in some cases high transaction costs when attempting to use these currencies as a means of payment, apart from the still very limited number of businesses that accept payments in cryptocurrencies at all. Already the process of mining each new coin is saddled by very high energy costs.

Finally, as a measure of value, the individual who routinely expresses the value of any good or service in terms of a virtual currency still has to be born.

Even as a store of value, the cryptocurrency sector is far from being mature and transparent enough to claim its place among established asset classes, as shown by the drop in many currencies' values since the start of the year. So far, there doesn't appear to be enough trust in these currencies to give them a stable valuation.

LACK OF REGULATION

Cryptocurrencies so far lack consistent governance and regulation – and by that I mean smart regulation, which will require a new approach to monetary oversight: just think about the repercussions on social welfare if governments can't deduct tax revenue from cryptocurrency transactions due to lack of regulation. The risk of jeopardising future infrastructure and social spending programmes should not be underestimated.

Yet, for many it is the very absence of a central regulatory body that makes them appealing in the first place.

As soon as governments try to regulate one cybercurrency or one distributed ledger network, another unregulated one may well spring up in its place. In my view, the likeliest way cryptocurrencies can work is complementary to established currencies, rather than as alternatives to them. We can have varying forms of money performing separate functions in different places as long as there is a record of our mutual obligations.



Cryptocurrencies make a positive contribution to society only if the profit generated from using them is invested in productive capital. PHOTO: BLOOMBERG

So far, Asia leads the way in cryptocurrency trading: At the end of November 2017, Japan, South Korea and Vietnam contributed 80 per cent of bitcoin trading activity globally, up from just under 28 per cent in 2013.

Past economists such as Silvio Gesell and Friedrich Hayek have advocated the feasibility of private currencies long before technology made their creation and their adoption as easy as it is today. In Austria one such experiment in 1932 was deemed a great success in pulling a region out of recession, only for the central bank of the time to step in and put an end to what it saw as undue competition. Where Karl Marx once argued that power lies with those who control the means of production, perhaps it really rests with those who control the means of production – of money.

Though cryptocurrencies still represent a trivial fraction of all payments in the world economy, this may change. They may well become widespread in emerging economies with dysfunctional government monies. While a system of private monies by no means guarantees price stability, arguably the mere threat of competition from private monies imposes market discipline on any government that issues currency. This may turn out to be cryptocurrencies' best feature.

Paraphrasing the economist Adam Smith, central banks may thus be forced to a "tolerable administration" of money. However, cryptocurrencies make a positive contribution to society only if seignorage, that is, the profit generated from using these currencies, is invested in productive capital. Otherwise the overall social and economic benefit is nil.

Asia, thanks to generally low electricity costs, is home to a large proportion of the servers on which cybercurrencies run. In this sense, Asia is arguably the first region to have

benefited from these new means of payment via an investment rush into computer and data storage hardware on a gigantic scale. Regardless of what happens on the technological front however, the aforementioned reflection on taxation, a determinant of whether and how far the public purse participates in the wealth generated by cryptocurrencies, clearly plays a role here.

On another level, the most disruptive impact of cryptocurrencies may not even have anything to do with money but rather with the potential of the underlying technology. Distributed ledger technologies are already being employed in a host of commercial applications, from streamlining manufacturing processes to improving corporate supply chains, and from smart contracts to peer-to-peer interbank payment systems within legal and financial services.

INTANGIBLE ASSETS

In recent years we have already witnessed a stark share price outperformance of companies that manage to exploit intangible assets versus those that don't. The investments going into these types of intangible assets generate a return for the companies involved but are not yet fully captured by statisticians, which partly explains why official data show a fall in investment in recent years in most developed economies.

Nevertheless, it appears certain that these investments will bear fruit – and it is thanks to cryptocurrencies, which have made the underlying technology known to people otherwise not interested in electronic networks, that most investors will take notice.

■ The writer is global head of Chief Investment Office, Deutsche Bank Wealth Management

2018: Will the bears return in the Year of the Dog?

Maybe not, but investors must be more nimble, tactical, and opportunistic given the late cycle nature of global equity markets. BY PRASHANT BHAYANI

IF one word described 2017, it was "Goldilocks". It was a strong year for asset returns with global synchronised growth combined with lower than expected inflation. How long can Goldilocks last? What will be the words to characterise 2018? The return of volatility?

How long the dog's tail will wag happily in 2018 is dependent on the key risks, which we'll analyse below.

(1) Peak of the decline of geopolitical risk?

The first risk and the hardest to quantify is the decline in geopolitical risk we saw in 2017. European elections did not yield a populist surprise in 2017, protectionism did not lead to a trade war, and the North Korea situation has not ignited into a broader crisis. Is this a temporary decline before an increase again or is the market being too complacent?

We don't have a crystal ball on the outcome of some of these events but we would point to the fact that the markets have overrated the impact of geopolitical events. On average, looking at some of the biggest geopolitical events in the last century, including the Cuban missile crisis, the First Gulf War, and US presidential impeachments, the market has been seen to regain its prior peak within a short period of 16 days or less.

On the other hand, in more extreme cases, such as the Arab Oil Embargo in the early 70s or 9/11, it took several years or more to regain its prior level due to stagflation and the final burst of a market bubble.

Protectionism is something we are monitoring and in that regard, the one-off tariffs on selected goods has been going on for years. However, larger targeted, broader tariffs would be of more concern.

(2) Peak of the central bank policies?

After US\$14 trillion in stimulus since the Great Financial Crisis, the pace of



Mr Bhayani says the world economy is strong and the recovery in capital expenditure points to continued economic expansion for some time.

the growth of central bank balance sheets is expected to slow in 2018 and will likely be in gentle decline by 2019. Coming from this size of central bank balance sheets is largely unprecedented. Furthermore, there has been a correlation at times of this balance sheet expansion and rising equity markets.

In addition, the Federal Reserve's balance sheet will be declining precisely at the same time that the Treasury bond is increasing with tax reform and higher fiscal deficits. A new Federal Reserve chairman, Jerome Powell, along with a number of Fed vacancies mean the market is anticipated to be sensitive to any future policy actions.

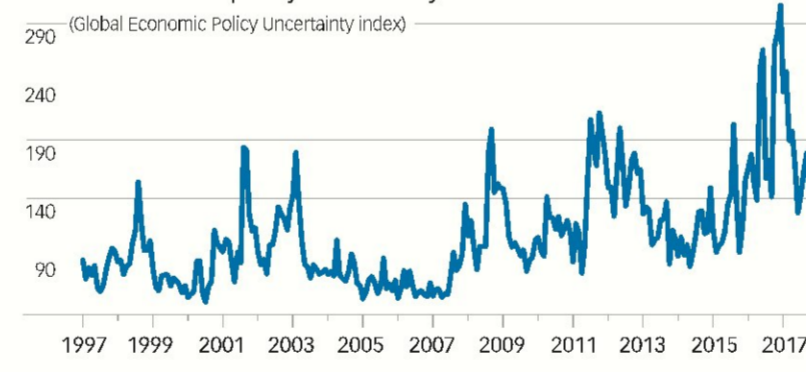
However, we believe the Federal Reserve is determined to start reducing the size of its balance sheet ahead of the next downturn.

(3) Peak of the economic cycle in the US?

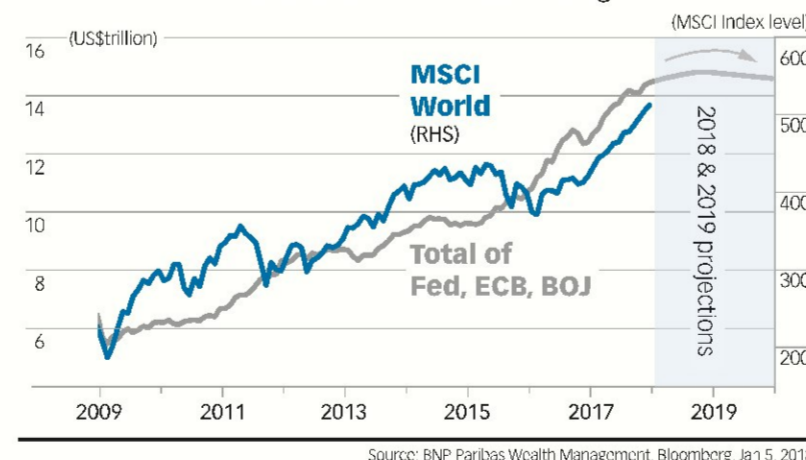
One of the key questions on how long the dog can bark in 2018 is where we

Dog tired?

Global economic policy uncertainty declined in 2017



Central bank balance sheets will start contracting in 2019



are in the economic cycle. Currently, the US is in its third longest economic expansion in history.

However, after financial crises, recoveries are typically anaemic and it usually takes time for the global economy to recover.

Therefore, you might ask what is left in the tank?

Presently, the US recession probabilities as measured by the New York Fed probability of US recession in the next 12 months are low.

The US economy is experiencing low unemployment, tax cuts, high

business confidence, and robust consumer spending. It is this delta or change in probability which we will be monitoring this year.

Finally, it is important to note that European and Asian economies are in mid-cycle. Hence, with global growth finally synchronised, their recoveries can continue in 2018.

Our forecast is for global growth in GDP to average more than 3 per cent for another year.

Incredibly, the global equity markets just went for more than 400 days, without a 5 per cent correction, the longest in 30 years.

Prior to the sell-off in February, sentiment had reached extremes, technical conditions became extremely overbought, weekly fund flows towards equities rose to record levels and the analysis of investor positioning showed that investors were most overweight on equities relative to government bonds since August 2014.

We had a short-term neutral stance, expecting a long overdue correction, while maintaining a medium-term overweight.

After a strong January, the market finally grew in February.

Firstly, Treasury yields have started to rise, as was our expectation, with a higher than expected wage inflation figure in the US at 2.9 per cent annualised, larger deficits, and lower than expected demand at selected Treasury auctions.

Secondly, a bout of "Volmageddon" (Volatility Armageddon) was unleashed as strategies which were short volatility, or expecting lower volatility, had to cover their positions leading to the largest one-day spike in the VIX (S&P 500 volatility index) in history. It may take time for investors to get used to this "normal" level of volatility.

CONSOLIDATION

However, we have now reinstated a moderate overweight equity view after the correction in Asia ex-Japan, European, and Japanese equity markets. Incidentally, the median correction since 1945 in the S&P 500 has been about 15 per cent.

The S&P 500 thus far in mid-February, had a peak to trough correction of nearly 12 per cent.

Consolidation and corrective periods usually last between one and three months. It will take some time to clear the overbought conditions and excessive optimism.

The main reason why we believe that we are not currently facing a bear market but rather a period of consol-

idation is that global economic conditions remain strong.

The world economy seems to be firing on all cylinders, and particularly encouraging is the recovery in capital expenditure, which points to a continuation in the current economic expansion for some time. The earnings outlook is therefore promising, for 2018.

The main constraint on equities is valuations, particularly as bond yields are rising. Still, 2018 should be a year of positive returns compared with 2017, which we forecast in a range of 10 per cent.

With regards to fixed income, global bond yields surged in January on the back of solid macro data, higher inflation expectations in the US and central banks' hawkish tone. This is in line with expected higher growth and higher inflation in 2018 in the US.

FOUR RATE INCREASES

Consequently, we expect four rate increases from the Fed in 2018 and higher yields, especially at the back-end of the curve. Our 12-month targets are 3.25 per cent for the 10-year Treasury and 1.25 per cent for the 10-year German Bund.

We remain underweight on government bonds and maintain a defensive position on corporate bonds with short duration investment grade bonds, floating rate bonds, unconstrained bond strategies, and local EM (emerging markets) currency debt.

In summary, in order to avoid being bitten in the Year of the Dog, investors will need to be more nimble, tactical, and opportunistic given the late cycle nature of global equity markets. A dog will always be your best friend, but you might need to keep it on a shorter leash.

■ The writer is chief investment officer Asia, BNP Paribas Wealth Management

Investors' dilemma

Risky assets could perform, but the market is likely to be a more volatile one. BY NEO TENG HWEE

THE year 2018 began on the same note on which 2017 closed – with global equity markets rallying on the back of positive investor sentiment. Despite the recent correction across global equity markets, equity valuations remain high. This may pose a dilemma to those investors who still have cash sitting on the sidelines.

In times like these, the question is whether investors should invest at all? It is a dilemma that they would face not just for equity markets but for fixed income markets as well, where yields are low and credit spreads are tight from a historical perspective.

To understand the current investment environment, let us take a step back to look at the broader macroeconomic environment and the outlook for the equities and the fixed income markets.

IMPLICATIONS OF MACROECONOMIC ENVIRONMENT

Last year, economic growth accelerated across most of the major global economies. This acceleration in growth was driven by broad-based demand in the global financial crisis. In our view, aggregate global growth should continue at its current rate or faster as 2018 progresses.

To address a key concern among investors, we acknowledge that the US cycle is in its later stages but we see few signs of a recession on the horizon.

Earlier concerns about very low inflation or even outright deflation in the major economies have dissipated. Inflation has stabilised across the major economies and it is likely to persist at its current pace, with a risk to the upside.

On the monetary policy front, many central banks are expected either to tighten their monetary policy or to stay on hold, such that monetary policy can be expected to tighten at a gradual pace in aggregate terms. Investors should note that gradual tightening will be more easily absorbed by markets and thus, less likely to trigger sharp sell-offs. With this in mind, investors

should be on the lookout for any risks of more rapid policy tightening. This could happen should inflation rise which will have a negative impact on asset prices.

Considering the above factors, our view is 2018 will be a year of improving economic growth, of gradually rising inflation and of gradually tightening monetary policy. Such a scenario implies that risky assets could perform, but the market backdrop would be a more volatile one given the tendency for markets to swing between inflation and growth scares.

Investors may be reluctant to invest new money when asset valuations are high. This is because of a higher risk of the asset price falling when valuations retrace to levels which are more consistent with the asset's long-run average.

However, they should note that high valuations do not always mean a retracement is imminent, although it does suggest that long-term returns are likely to be lower. Both equities and fixed income markets can remain at higher valuations for extended periods of time. During these periods, the assets may continue to generate returns for investors and as such, high valuations should not be an automatic barrier to putting new money to work.

The more fundamental question investors should ask when faced with high valuations is whether there are reasons for those valuations to retrace. If they expect those valuations to remain stable or to continue to rise, then they may consider staying the course or adding to their existing investments.

From our perspective, prices are likely to be supported as in the past, the primary trigger for a large sell-off has been a recession, or signs that one is impending. Given the weight of the US economy in the global economy and global equity market, it is a US recession that generally concerns investors.

At 104 months old, the current US economic cycle is already one of the longest in history. Consequently, questions are being raised on the viability of continued growth in 2018. While we recognise that this is a risk, we do not share this scepticism as economic cycles do not 'die of old age', so to speak. Since World War II, the primary cause of US recessions has been rap-



Mr Neo reckons that 2018 will be a year of improving economic growth, of gradually rising inflation and of gradually tightening monetary policy.

idly tightening monetary policy or oil shocks. Currently, neither is the central scenario for 2018. As central banks eventually exit from ultra-easy monetary policy, higher valuations will be challenged and therefore, critical to the outlook for 2018 is rising inflation.

EQUITIES

We like equities as they are likely to move higher on stronger earnings but valuations are unlikely to re-rate higher given a tighter monetary policy environment. Broadly speaking, we expect equities to deliver better returns than fixed income in 2018, given the low all-in yields for most fixed income asset classes.

Markets outside the US, including Europe and emerging markets, are not yet showing late-cycle conditions. Equities in these markets may be attractive as they could present more upside opportunities.

FIXED INCOME

Asian fixed income consists largely of USD-denominated bonds, whose price returns depend on US interest rates and credit spreads. US interest rates are on the rise as the Federal Reserve (Fed) is in the midst of its tightening cycle. We expect it to deliver three interest rate hikes in 2018, in line with industry forecasts which mostly range from two to four hikes. Credit spreads are expected to be tightened slightly as they are already near or at historical

levels. Taken together, the outlook for US interest rates and credit spreads suggest that price returns on USD-denominated bonds are likely to be very modest, possibly even slightly negative. These price returns, when combined with the regular coupon payments from bonds, are likely to result in total returns for fixed income in the low to mid-single digits.

Investors who still prefer fixed income assets may wish to consider venturing beyond the usual, familiar segments for better value. One segment to explore is US Treasury Inflation Protected Securities (TIPS) and other inflation-linked bonds. These bonds increase their returns to investors when there is an increase in inflation. As inflation in the US remains low by historical standards and the risk is to the upside, these bonds may offer investors a cheap embedded hedge against higher inflation.

For investors who are familiar with local currency bond markets in emerging economies, these assets may be a potential source of value. However, we advise that investors do their homework when investing in these assets. A higher risk of socio-political developments could affect local currencies and/or the interest rates in these economies. Alternatively, an external professional adviser may assist investors with the active management of their fixed income portfolios.

SUMMARY

In 2018, we advise investors to be mindful of the catalysts for a pullback in valuations. That said, markets are expected to stay volatile, providing shorter-term, tactical investment opportunities. Investors should consider buying hedges when they are cheap and take advantage of volatile episodes as buying opportunities.

They may consider using option structures to limit downside risk without sacrificing the upside potential of the investment. The addition of some alternative assets including hedge funds and commodities would also help with diversification.

■ The writer is chief investment officer and head of investment products and solutions, UOB Private Bank

Nothing ventured, nothing gained

But don't put all your eggs in one basket. BY GRIZELDA LEE

THE bond market has been correcting in recent days, and the same can be said to a more severe extent for stocks. Investors have been calling for an end to the bond bull market for years now, and they have been proven wrong year after year. Bond investors who have experienced the debacle from 1980 to 1981, would have seen 10-year US Treasury yields soar a whopping 650bps during an era when the Fed hiked key rates from 9.5 per cent to 20 per cent.

It was a period of the largest losses for the bond market in American history. The maximum drawdown for long-term bonds then came in just under 21 per cent – the only registered bout of losses exceeding 20 per cent for US government bonds.

When we consider the fact that coupon income accounts for a major portion of total returns for fixed income, that provides some buffer against the capital losses on the bond price.

For this reason, the well-known "bond market bloodbath of '94" saw total losses at 3.35 per cent, while the taper tantrum of 2013 saw total losses at 3.35 per cent – not quite what one would define as a bear market.

Several factors such as sustained growth and rate hikes may exert pressure on this asset class, but the pillars for fixed income markets remain engaged – political uncertainty, high US government debt, and US Treasuries' relative attractiveness versus other developed countries' debt.

The last point packs a weightier punch now with the 40bps jump in yields seen in US treasuries year to date.

BONDS

Investors vary in their preferences and beliefs and many shun bonds due to their perceived lower returns.

A well-diversified portfolio would put a smile on any Modern Portfolio Theorist's face. For an avid equity investor, it is believed that one should allocate some portion of the portfolio to bonds – for obvious reasons such as recurring income and capital redemption, and for less blatant purposes such as managing the overall volatility of one's positions.

Given the huge gains across global stock markets witnessed last year, portfolio allocations between equities and bonds would have most likely moved away from target weightings. Rebalancing is thus much needed, especially this year.

An Apple investor who has placed all his money in the stock 10 years ago would probably not appreciate the concept of asset allocation nor the Efficient Frontier. Surely hindsight is a wonderful perspective to have, but if we all had it, there would be no history to write about.

The Efficient Frontier is a set of optimal portfolios that provides the highest returns for a given level of risk, that is, a portfolio that defines the perfect balance between risk and return – a theory founded by American Nobel Laureate Harry Markowitz.

The Eureka moment for Mr Markowitz hit when he discovered that the volatility of a portfolio does not solely depend on the constituents of the portfolio, but also on the extent of their movement up and down together – correlation as we call it. Year to date, the stock-bond correlation is best explained by the MSCI Asia Ex-Japan Index versus 10-year US Treasury yields, displaying a negative correlation.

The value of diversification has displayed its usefulness in what we saw as the most recent shake-up in the month of February, after markets tumbled off their highs etched in the concluding week of January.

Portfolios which have allocated all of their funds in equities would have seen as much as a 10 per cent hit, while a 50/50 bond to equity allocation would have seen half that decline.

Diversification works because dissimilar asset classes do not move in parallel and therefore helps to optimise portfolio returns with less fluctuations than one would see in a single asset class over time.

Then comes asset allocation. The combination of asset allocation coupled with the Efficient Frontier is a winning formula. If one has invested solely in Asian equities in 2017, returns would



Ms Lee thinks portfolio diversification will become more essential to navigate more challenging market conditions.

have been as phenomenal as over 40 per cent while the gains for having invested purely in investment grade bonds would have registered a paltry 6 per cent for the same period.

Fast forward a year on, investing in the same equities would have rendered an investor 10 per cent poorer over the span of a week, while the losses for bonds have not quite moved the needle in comparison. Not forgetting the topic of risk – the volatility of taking on exclusively stocks vis-a-vis a stable of bonds can be as vast as tripled. Equities generally bear the burden of 15-18 per cent in volatility, while for bonds' it is 4 to 5 per cent.

Not all bonds are made equal. Corporates with 'junk' status tend to carry higher risks than those with investment grade rating. Other factors such as duration risks should also not be ignored – the longer the duration of a bond, the higher the sensitivity to rates.

Risks and returns work hand in hand. In order for an investor to see higher returns, he needs to be willing to stomach a greater level of risk and this is most commonly done via longer maturity bonds or lower quality credits. Amid compressing spreads on bonds through 2017, investors have inadvertently increased risks in their pursuit of higher yields. Bonds with different characteristics carry different risks and consequently, different returns. It is safe to say that even within the same asset class, diversification can serve as a helpful tool.

NEGATIVE CORRELATION

Take a simple example of Stock X and Bond Y, with an investment horizon of two years. An investor puts half his money in Stock X and half his money in Bond Y, for both years. Stock X goes up by 10 per cent in the first year and none in the second, with an implied volatility of 15 per cent. Bond Y saw zero gains in the first year and rose by 10 per cent in the following year, with an implied volatility of 10 per cent.

Both securities trade with negative correlation. Due to this negative correlation, an investor would withstand lower volatility of approximately 7.8 per cent, compared to 10 per cent by buying solely Bond Y, or 15 per cent investing purely in Stock X, and all this while, enjoying the same returns over the same holding period.

Introducing bonds into a portfolio of equities will benefit more than one can complain about opportunity costs. Bonds have the edge of carry income, which is why over the past 20 years, the bond market has only seen three years of negative total return, with each not exceeding 10 per cent, and these years have never coincided with a rate hike cycle, nor were they back-to-back years.

In contrast, for equities, the MSCI World Index saw six years of losses, with 2008 falling over 40 per cent in value.

With the VIX index up from 10 to 37 at its peak since the start of the year, volatility becomes a real hazard and portfolio diversification will become more essential to aid one in navigating more challenging market conditions ahead.

Active management via the discretionary portfolio management platform can also add further alpha by employing alternative investments and hedging strategies.

Perhaps it is time we move away from a long-only approach. As the old adage goes: Don't put all your eggs in one basket.

■ The writer is head of discretionary portfolio management, Indosuez Wealth Management

Don't be shy, catch China's transformations

By Ken Peng

ONCE bitten, twice shy." This can be used to describe global investors' general attitude towards China. In between debt, an opaque political system and frequent negative headlines, many investors have chosen to avoid the market.

Meanwhile, historic transformations are taking place in China that would markedly elevate its representation in global capital markets in the coming years. Investors, shy or not, should consider positioning for a world where Chinese equities represent a much larger share of the global portfolio.

We see three main transformations taking place: economic structure, financial sustainability, and capital flows.

ECONOMIC RESTRUCTURING

Consumption and services account for a majority of China's economy, at 55 per cent and 52 per cent of GDP respectively. This has taken place when fixed investment growth fell to the slowest on record. Exports grew at a healthy 7.8 per cent clip in 2017, but imports outpaced that at 16.4 per cent, thereby narrowing the trade surplus by nearly US\$100 billion to US\$41.5 billion.

Anecdotally, this transition is also highly visible. Singles Day sales on Nov 11, 2017 for example, amounted to US\$45 billion on just two online platforms compared to US\$8 billion on Thanksgiving and Black Friday in the United States. The two largest Chinese companies – Tencent and Alibaba – have led the way in building online ecosystems that can serve nearly every aspect of consumers' lives, and these companies have little debt.

China is also leading the way in the development of innovative technologies including fintech, artificial intelligence and genetic engineering among others that have, and will continue to transform, the way we live, work and play.

FINANCIAL SUSTAINABILITY

Despite the structural changes, the most frequently cited economic headlines on China still centre on debt. A case in point is China's large corporate debt load, which stands at 163 per cent of GDP in 2017. This has actually come down from 167 per cent in 2016. Policymakers, in line with President Xi Jinping's economic objectives outlined at the 19th Party Congress, have deployed powerful measures to contain systemic risks.

China's central bank has tightened monetary policy much more than any other major economy and the country's banking and securities regulators have relentlessly attacked the shadow financing industry. As a result, onshore interest rates have risen 150bps over the past 15 months, and the pace of M2 money supply growth has fallen from 11.5 per cent to 8.2 per cent, the slowest pace on record. In addition, corporate debt is rising less than GDP growth, and households and governments are increasing leverage from below 50 per cent of GDP, which is very low by global standards.



Mr Peng says in the next decade, China's weight in global equity and bond benchmarks is expected to climb substantially.

Yet, China's GDP growth held up well at 6.8 per cent in 2017 and is poised to grow by about 6.5 per cent in 2018. This shows that China is becoming less dependent on credit-sensitive growth and the tightening is enabling greater sustainability of the financial system. Banks have seen credit demand return from the shadow, while higher rates have enabled wider margins, which together help to digest legacy asset quality problems.

There are some worries as to how much deleveraging policymakers intend to push for. This depends on how well the economy functions in the process. Policymakers have no appetite for dogmatic austerity, which means it can be eased when necessary. The economy's resilience, based on what we have observed, has improved efficiency which is positive for companies' profitability.

MEMORIES OF THE BITE

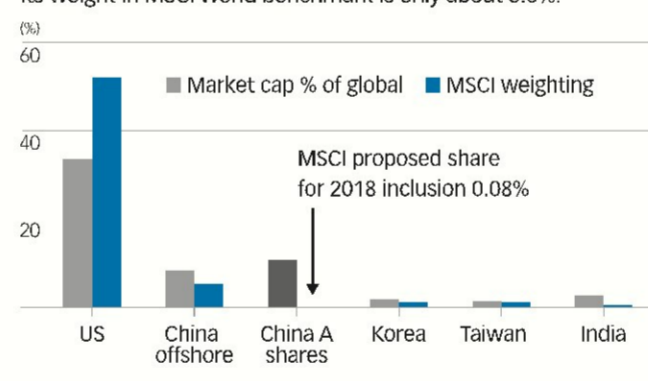
A key reason why investors might not recognise these positive developments may be the memories of the market events from 2014-15, which are still too fresh. The toxic blend of deteriorating growth and accelerating margin leverage, with a rigid exchange rate regime amid sharp USD appreciation, created a bubble of epic proportions.

Today, however, we are seeing earnings growth at the fastest pace since 2011, with continued rising earnings per share estimates in January 2018. Margin leverage is rebounding, but remains far lower than 2015, and the authorities are already tackling the problem. Valuations are still cheap, especially after the correction in early February 2018, with CSI 300 and MSCI China forward PE multiples both at about 12.8x, versus peaks of 19x in 2015, 27x in 2009 and 35x in 2007.

On the FX front, China has tightened capital account controls substantially and is now in the process of gradually easing those controls. The RMB has been very strong amid a broad retreat in the USD, which we believe could last another few years. Arbit-

Small now

China's share of global equity market capitalisation is about 16%. Its weight in MSCI World benchmark is only about 3.5%.



Source: World Federation of Exchanges and Bloomberg as at Dec 2017

rary intervention in the currency has been cut back, with the suspension of the "counter-cyclical factor". FX reserves have rebounded by US\$140 billion in the past year, which is enough to remove it from headlines that tend to only report when they are falling.

BENCHMARK CLIMB AND CAPITAL INFLOWS

The most important transformation for investors is the benchmark climb. China has been accepted into several international clubs, but its representation continues to be much smaller than the weight of its contributions. When the MSCI adds A-shares (equities listed onshore in China) later this year, the weight would be 0.08 per cent within the MSCI World benchmark.

Meanwhile, A-shares account for 11 per cent of global equity market capitalisation. China offshore shares (those listed in Hong Kong and the United States) have a bigger weight of 3.5 per cent in MSCI World, while the actual share of global equity market capitalisation is 5 per cent.

In sum, China gets about 3.5 per cent of MSCI benchmark for an actual share of global equity market capitalisation of 16 per cent. Even compared to the 3.5 per cent current MSCI benchmark, global investors are underweight on China. Together with Taiwan and Korea, China is among the three biggest underweight markets for global mutual funds that have an emerging markets mandate. This is not just an equity issue as bond investors (aside from sovereign funds and central banks) are also found to have negligible exposure to China.

In the next decade, we expect China's weight in global equity and bond benchmarks to climb substantially. This would result in significant portfolio inflows that are likely to last well beyond the current business cycle. Investors who wish to capitalise on this benchmark climb should start increasing their exposure to Chinese equities.

■ The writer is Asia investment strategist, Citi Private Bank

TEN INVESTMENT IDEAS for 2018

"In the year ahead, we expect a sustained economic recovery with rising inflation. Less accommodation from central banks is on the cards, while technological progress and emerging trends will continue."

Arnaud Tellier

Head of Investment Services, Asia
BNP Paribas Wealth Management



Last year was a time of strong economic growth, as improving fundamentals around the world prevailed over geopolitical obstacles. In the US, interest rate hikes hardly caused a stir in financial markets, while in Europe, buoyant company earnings and better-than-expected election results bolstered the economy. Asia matched with robust growth as well.

The synchronised global growth will continue into 2018, says Arnaud Tellier, Asia Head of Investment Services for BNP Paribas Wealth Management.

"In the year ahead, we expect a sustained economic recovery with rising inflation," he says. "Less accommodation from central banks is on the cards, while technological progress and emerging trends will continue."

Equity markets, in particular cyclical sectors, will remain driven by positive corporate earnings and a gradual normalisation of monetary policy. The bank, which is neutral on US equities and prefers European, Japanese, and Asia ex-Japan equities for their more favourable valuations, remains positive on equities in the medium term on the assumption that earnings grow at high single digits this year.

Investing in bonds, however, will be a challenge with the prospect of four interest rate hikes anticipated in 2018, it says.

The bank has selected 10 investment ideas for 2018, with five based on the theme of the global economy entering a late-cycle environment, and another five on megatrends that offer long-term growth opportunities.

1 ALTERNATIVE FIXED INCOME STRATEGIES

As yields rise gradually in the US and the Eurozone as they normalise their monetary policies, existing bonds will become less attractive. To benefit from the expected rise in US short rates, defensive investors may like to take on variable-rate loans or synthetic bonds indexed to short rates. Investors who can accept volatility will find attractive yields in emerging market local currency debt.

2 FLEXIBLE SOLUTIONS

With returns on traditional bonds expected to be very low, and some equity markets already fairly expensive, opportunities lie in alternative mutual fund strategies, unconstrained bond funds, and structured products.

In mutual funds, portfolio managers with "long/short equity" strategy can bet on share price anomalies, while those with "macro" strategies can benefit from trends in central bank interventions and commodity price fluctuations.

Unconstrained bond funds which have no benchmark constraints and may be invested in any sub-asset class, and structured products which can make use of complex instruments, can optimise returns without increasing the sensitivity to a rise in interest rates.

3 ACCELERATION IN MERGERS AND ACQUISITIONS (M&A) AND CORPORATE ACTIONS

As the economic cycle advances, companies find it increasingly difficult to trim costs internally and improve profit margins or return on equity. M&A activity thus tends to increase as companies pursue cost and revenue synergies, spurred by healthy balance sheets and cheap credit. Investors can pick stocks with exposure to such developments, including company spin-offs and share buybacks. This theme, however, may not persist into 2019.

4 VALUE INVESTING

Empirical research shows that over the long run, value, or cheap stocks tend to outperform growth stocks, or those with above-average earnings momentum. Value stocks are trading at very attractive discount of nearly 55 per cent, versus the long term average of 47 per cent after underperformance this cycle. As they have strong positive correlation with rising yields, value stocks are expected to outperform across the board, a late cycle theme. This strategy, however, is expected to be limited to 2018.

5 TANGIBLE ASSETS TO PROTECT AGAINST INFLATION RISK

While inflation expectations are very low, there is a real risk of surprises to the upside, especially in the US. A direct exposure to real assets will help stabilise long-term returns and increase protection against inflation. One can invest in gold by buying ingots or through exchange traded funds. Direct real estate and rural land such as farms, vineyards and forests are also options but the bank highly recommends seeking independent professional advice from an expert for these opportunities.

6 MILLENNIALS

Millennials, or those born between 1980 and 2000, are revolutionising the way goods and services are consumed and forcing companies to innovate. There are opportunities in sectors such as virtual reality and augmented reality, database analytics including cloud computing, and new modes of consumption changing the logistics and e-commerce sectors. Such investment opportunities lie mainly in equities and equity funds, and is part of a long-term trend.

7 MOBILITY REVOLUTION

Governments around the world are pushing for the adoption of electric vehicles (EV) and autonomous vehicles, as they tackle global warming, pollution and congestion problems. This mobility revolution opens up opportunities at every level of the value chain: materials (metals, chemical products used in batteries), electricity producers, EV makers and carpooling services. The theme is played out on equity markets via funds and individual stocks, and carries a long-term horizon.

8 INFRASTRUCTURE AND URBANISATION

Investment in infrastructure and urbanisation will be essential for emerging markets to reach the next stage of their expansion. Sectors involved are construction, capital goods, utilities, basic materials, infrastructure and transport, and extends even to smart grids, telecommunications, wastewater treatment and waste management. Individual investors can access the long-term theme through equity markets.

9 HEALTHY CONSUMPTION

Enjoying a healthier lifestyle in a cleaner environment is becoming increasingly important for many. The bank recommends investing in a selection of shares, green bonds and investment funds which favour healthier living. This long-term theme will take off when people become aware of the need to live in a healthier environment and to adopt new habits to benefit their health.

10 RISE IN BUSINESS INVESTMENT

Companies are investing to secure productivity gains against the backdrop of a more favourable economic growth environment. Beyond economic cycles, companies also have to invest in advanced technologies such as analytics, automation, artificial intelligence and 3D printing to transform their manufacturing processes. Technology and capital goods sectors will benefit from these, but such investment requires a constant vigilance and an acceptance of above-average risk.

IN A CHANGING WORLD,
WHATEVER THE DISTANCE,
RELATIONSHIPS MATTER.



SEAMLESS ACCESSIBILITY

We can achieve great things even when geographically apart. By serving you globally and locally, in person, on-line, and on the move, your wealth has a voice. Let it be heard.



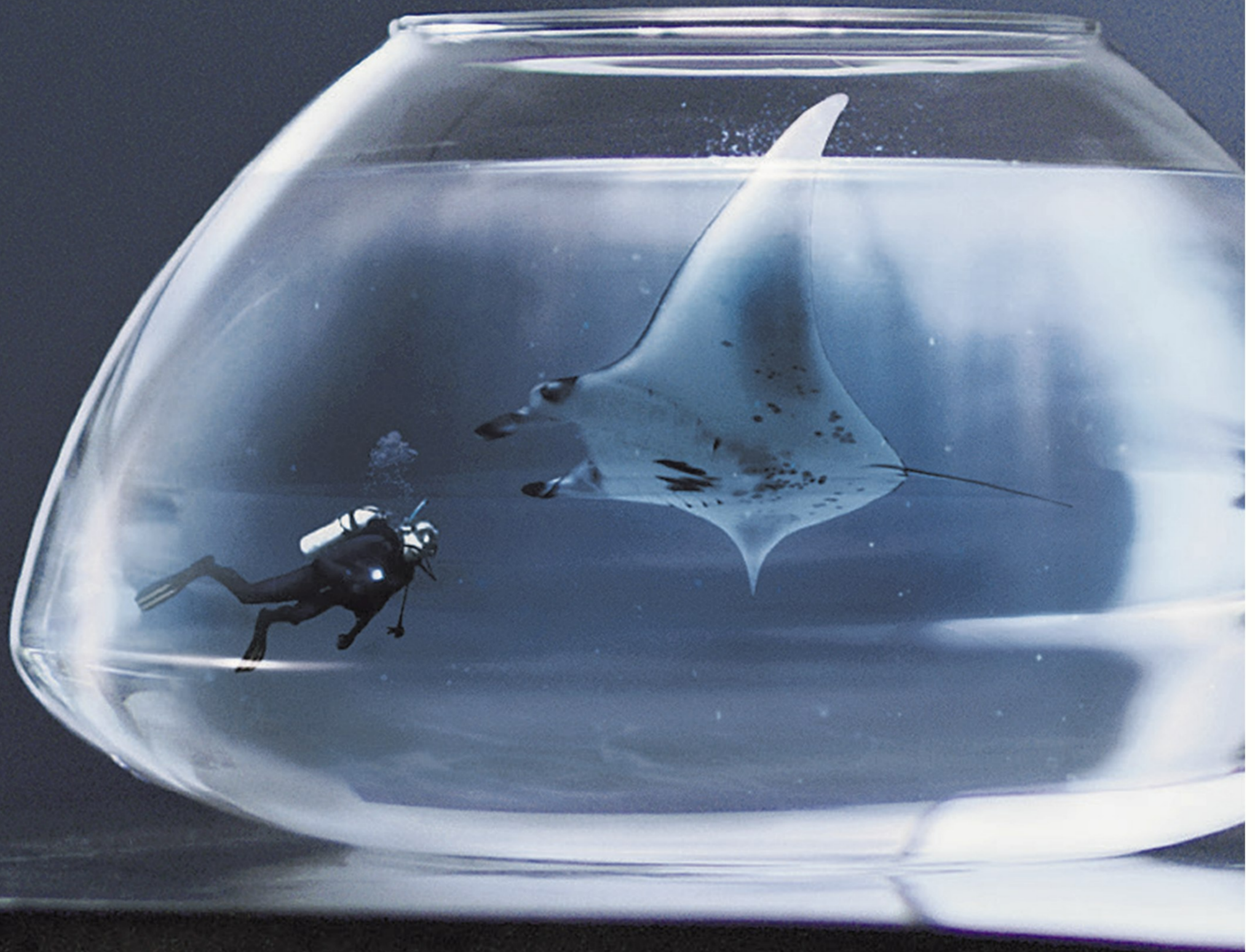
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CRÉDIT AGRICOLE GROUP



Jyrki Rauhio
South Asia Head
Citi Private Bank

Accelerating Growth for the Future

As the first global bank that kicked off private banking in Asia in the 1980s, Citi Private Bank has grown from strength to strength in this region. Today, it serves a third of the world's billionaires in Asia, and has strong numbers to show, with total wealth asset under management in the region as at Dec 2017 closing at US\$256 billion. The business was also the star performing unit for Citi in Asia Pacific and globally, with revenues in 2017 up 23 per cent from a year ago.

With that strong momentum, Jyrki Rauhio, the newly minted South Asia Head of Citi Private Bank, is raring to go. He is looking to leverage on Citi's globality and scale, as well as its strong reputation and solid balance sheet, to offer a winning edge over the competition.

Mr Rauhio's recent appointment is part of the leadership changes in Asia, with the bank looking to refresh the way it addresses the business needs of each market in this region. The bank's latest move would allow Citi to be more focused in servicing the near 17,000 ultra high net worth individuals in the South Asia markets. Mr Rauhio will now cover nine markets, including Asean, India, Australia and New Zealand, where on average, wealth growth is cranking ahead of GDP growth.

"We're giving some of these countries, and these markets, a more prominent focus than we've had before," says Mr Rauhio, who was previously head of investment finance and banking for Asia.

His quest is simple, but drills deep: how can Citi be relevant locally, and unbeatable globally?

"We need to raise our game. It's not just about offering the cheapest execution platform. It is about offering things they don't see elsewhere," says the Citi veteran who has been with the bank for 23 years.

Citi's hunger for growth in this part of the world reflects the changing dynamics of Asian wealth, as the second or third generation in successful family businesses here is primed to take over the empire. The rising savviness of the younger clients means that Citi has to cater to different needs from a few years ago.

"The wealth is changing. Asia still has a lot of first-generation wealth. But with the second and third generation, those daughters and sons are educated in the best universities of the world, they are very conversant in portfolio theory, and they are now assessing the empires that they are about to inherit. The private banking products that they require are very different from what their parents or grandparents utilised, which were of much higher and more concentrated risks, and much more illiquid assets. Now, the conversation is about 'how can I diversify my wealth?'" says Mr Rauhio.

"That's when they look at global opportunities, and where Citi comes in. We offer the world to them."

Among the extensive product range offered to private banking clients, the managed investment business has seen the most interest over the last few years. This is particularly compelling in light of the fact

that the region is often characterised by the appeal of capital markets. Leveraging on the bank's global network, Citi Private Bank has been very successful in packaging real estate investment ideas in places such as Australia, the United States and the United Kingdom, where clients can get exclusive picks at unique property projects. Citi today has a strong global footprint with 48 offices, serving clients across 116 countries.

"What we are selling to clients is a private equity idea, on a unique and exclusive basis. That is something that is clearly of interest. This is a trend that will not stop," says Mr Rauhio.

Such portfolios can be customised, which gives clients more flexibility in sifting out investment ideas that they are most comfortable with. This also gives the bank a significant leg-up at a time when clients are clearly demanding more exposure to alternative investments, but are asking more questions before ploughing their money into such opportunities.

It reflects a broader trend of the second and third generation clients who are time-starved, and are willing to let their private bankers manage a portion of their wealth, as long as they are offered ideas that are specifically relevant to them.

"Do you really know the Latin American stock market that well? Do you have all the time to follow the trends in robotics? Probably not. Our job is to filter all that noise, and come back to our clients with a few ideas that are the ones that the clients should be investing in at any given time," he adds.

"We have large teams of people who are shown a thousand ideas a year, and they pick a handful. We then go to our clients with the curated content."

Citi Private Bank boasts of a healthy cost-to-income ratio below 60 per cent. That ratio puts it as one of the best private banks in the region when compared with the industry average of 80-90 per cent.

"A lot of private banks will have to truly think through the model. The costs have gone through the roof and the cost base is very fixed. They've hired a lot of expensive people into their shops, they've put up lavish offices offering fancy coffees, but they don't really have anything to sell to their clients. They are just not relevant. We do think that you will continue to see a shakeup," says Mr Rauhio.

Citi plays to its strengths by focusing on digital technology, offering digital tools to its private banking clients in Asia, through its Investment Lab. The platform allows the relationship managers to analyse clients' wealth, and break down concentration risks. As part of an extensive family referred to as One-Citi, it can also rely on existing technology from its commercial, corporate, investment and retail banking units among others to build a robust platform for its private banking clients.

The bank plans to hire more bankers in 2018 to support its fast-growing business in South Asia, and is confident that the business will continue to perform well above expectations.

"I want to grow the importance and relevance of Citi Private Bank to our clients, and we can continue to accelerate growth," says Mr Rauhio. "Citi is going to be an even more formidable player in the future."

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Banking Southeast Asia's Tech Entrepreneurs

As Southeast Asia's tech entrepreneurs look to make a mark on the world stage, their banking needs have become more complex.

Sea, Grab and Go-Jek. These are three of the most valuable of Southeast Asia's reportedly seven home-grown unicorns – technology companies having a valuation of US\$1 billion-plus.

South East Asia's internet economy is thriving, with a predicted worth of US\$200 billion by 2025, up from US\$50 billion in 2017, according to a report by Google and Temasek Holdings. Meanwhile, the online user base is expected to grow to 480 million users by 2020 from 260 million users today.

"The evolution of the diverse Southeast Asian economies and their overall growth prospects are characterized by a vibrant entrepreneurial drive," said Helman Sitohang, Chief Executive Officer of Credit Suisse in Asia Pacific. "Southeast Asian tech entrepreneurs are an important catalyst to the region's economic growth. As they look to build successful businesses, they need access to a global pool of investor capital," he added.

Funding expansion

Given its global presence and its expertise in international capital markets, Credit Suisse has consistently been the bank of choice for Southeast Asian technology entrepreneurs. It has also been a key advisor to many companies outside Southeast Asia, who are attracted by the region's burgeoning middle class and digital population – some 330 million people potentially adopting mobile, e-payments and e-commerce as a way of life. And the bank brings one additional factor: a captive client base of potential investors who are looking for opportunities to make good investments.



"Credit Suisse's integrated approach combining investment banking and private banking enables us to deliver a holistic service to Southeast Asia's leading entrepreneurs and corporates."

Helman Sitohang, member of the Executive Board of Credit Suisse Group AG and CEO of Credit Suisse, Asia Pacific



"We bring all the resources of both the private bank and investment bank together in a unique and compelling proposition, which supports entrepreneurs at all stages of the business cycle, be that expansion, or preserving and growing wealth."

Francesco de Ferrari, Head of Private Banking Asia Pacific, CEO Southeast Asia and Frontier Markets, Credit Suisse

"Credit Suisse's competitive advantage is our ability to bring together the resources of both the private bank and investment bank to serve our clients. As one of the largest Private Banks in the world, we can tap into a client base that represents a knowledgeable, sophisticated and discerning pool of potential long-term investors," said Francesco de Ferrari, Head of Private Banking Asia Pacific at Credit Suisse.

A unique approach

Few banks are positioned to meet the complex needs of tech entrepreneurs. Credit Suisse is an exception. With nearly five decades of experience in Asia Pacific, combined with more than 160 years of heritage, Credit Suisse has a deep understanding of the region, combined with strong overseas networks and expertise. Credit Suisse also has the distinction of being the only bank to have been active and involved in arranging equity capital markets transactions in every major Southeast Asian market in 2017 – including Singapore, Thailand, Indonesia, Malaysia, Vietnam and Philippines.

Credit Suisse's Private Bank and Investment Bank work hand in hand – a differentiated approach that

is well-suited to serving Southeast Asia's entrepreneurs who are looking to not only build successful businesses but are also keenly focused on protecting and growing their amassed wealth for future generations.

"Our investment banking expertise and strong private banking presence means that Credit Suisse is able to provide a "one stop" service that can deliver tailored and holistic solutions to entrepreneur clients," noted Edwin Low, co-head of Investment Banking & Capital Markets, Asia Pacific at Credit Suisse. "Moreover, our centralized trading, risk management, structuring and syndication platform for lending – which is unique across the banking industry in the region – caters to the needs of clients across the entire financing spectrum," he said.

Working with an established global financial institution has other benefits as well. This coming March, Credit Suisse will be holding its 21st annual Asian Investment Conference (AIC) in Hong Kong. The AIC is the largest and most exclusive investment conference in the region, bringing together Asia's leading entrepreneurs, policymakers and business leaders and creating an ecosystem for them to interact and share insights. This year's theme of "Disruption as Usual" will shine a spotlight on how disruption is taking place across the region and in almost every sphere of activity.

It's never been a more exciting time for Southeast Asia's technology entrepreneurs. But to reach full potential, it's important to have a partner that's up to the task. With its strong global resources and local expertise, Credit Suisse has been a trusted partner to many of Asia's leading entrepreneurs, helping them expand their businesses globally and bring disruptive and innovative technologies to the world.



"Our strong product offering, differentiated solutions, and centralized financing capability enable us to successfully cater to the complex needs of our clients."

Edwin Low, co-head of Investment Banking & Capital Markets, Asia Pacific, Credit Suisse

Credit Suisse key accolades in 2017:

Best Private Bank
Asian Private Banker

Best Investment Bank
GlobalCapital Asia

Best Corporate and Institutional Bank
The Asset

#1 All-Asia Sales & Trading Teams
Institutional Investor

Asia's Best Bank for Wealth Management, Asia's Best Bank for Financing
Euromoney

Best Private Bank – Indonesia, Malaysia, Thailand
Asian Private Banker

Best Investment Bank – Singapore, Indonesia, Vietnam
Euromoney

Best Corporate and Institutional Bank – Singapore, Indonesia, Thailand
The Asset

To find out how Credit Suisse can help you achieve your needs, visit credit-suisse.com

Deutsche Bank
Wealth Management



Year in review and look ahead

2017 was a great year for the Asia Pacific division of Deutsche Bank Wealth Management.

Lok Yim, Head of Deutsche Bank Wealth Management, Asia Pacific, said, "The key highlight for Asia in 2017 was growth. We grew revenue, and we grew our people."

In spite of the challenges, the strong teamwork practiced at Deutsche Bank Wealth Management, with its focus on offering the very best to its clients, has paid off. Assets under management (AUM) for the Asia Pacific division have all returned after the reported net outflow in 2016 and the business has seen positive growth in client assets.

With support from the Management Board last year, the Asia Pacific division received significant investment to put into people and technology. In addition to rolling out digital tools to enhance the client experience (such as Deutsche Wealth Online) and empower staff with insight-sharing systems like the Spotlight app, the Asia division has also made more than 50 hires across all functionalities to support growth.

Yim is looking forward to another positive year, "We are ready to grow further in 2018, with an increase in assets and hires." Deutsche Bank Wealth Management's innovative open architecture provides clients with access to best-in-class investments and a wide product suite. Clients recognize the significant added value of a one-bank approach, which offers them access to a world-class investment bank with top-tier markets, corporate finance and transaction banking.

Deutsche Bank Wealth Management connects Asian clients to a network of expertise and opportunities in 90 cities across 25 countries, covering more than 100 markets globally. Cultivating its deep local heritage and global reach, the bank celebrated its 45th anniversary here in Singapore last year.



Lok Yim
Head of Deutsche Bank
Wealth Management
Asia Pacific

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CIO Insights

Reality check 2018

Explore the investment landscape ahead at deutschewealth.com

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Building Success Together

At HSBC Private Banking, teamwork gets clients the best investment advice and outcomes



From Left: **Philip Kunz**, Head of Global Private Banking Southeast Asia, HSBC Private Banking; **Kenneth Yeo**, Head of Investment Services and Product Solutions Group, Southeast Asia, HSBC Private Banking.

Conviction crops up a lot with Philip Kunz, a veteran banker who is HSBC's newly-appointed Head of Global Private Banking, Southeast Asia.

It drives how the bank manages money for clients, for instance.

"Our entire approach starts from intellectuals reading the world, understanding geopolitics, taking a view, articulating it well, with conviction, pursuing it, and bringing it to clients," he said.

"Our economists and research, the huge footprint we have, all the trade flows we see, combined with our product shelf, make us equal to the best."

There is conviction, too, in HSBC Private Banking's belief that one size, one solution does not fit all.

"Given the complexity, speed, and volatility of markets, the best way to serve clients is through a team of client-facing Investment Counsellors and Product Specialists supporting the Relationship Manager (RM)," Mr Kunz said.

"After all, nobody has the expertise to do everything alone. RMs are already involved in providing multiple services from sourcing corporate opportunities to philanthropy, whereas the client deserves a daily, intense focus on investment," he said.

Hence the role of Investment Counsellors was created. They are in charge of portfolio construction, monitoring, and rebalancing. They are product-agnostic, screening client portfolios for concentration issues, and mismatches with risk profiles and HSBC house views.

Product specialists, meanwhile, provide bespoke support on products like annuities, discretionary portfolio management, alternatives, equities, foreign exchange, fixed income, and structured products.

"This is about layering. You start with a generalist who understands asset allocation, and at each step, you go deeper depending on the needs of the client," Mr Kunz said.

A welcome change

Clients have welcomed the new tailored approach.

"With a more structured framework you tend to see better, more sustainable outcomes," Mr Kunz said.

"Clients also enjoy the exposure to more than one person. They feel that the whole of HSBC is coming in to support them. They are enjoying a universe of offerings far greater than what they hoped to see than when relying on just one entry point."

"The breadth and depth of support offered by HSBC has impressed clients who are banked with other financial institutions looking to deepen their relationship with us," said Kenneth Yeo, Head of Investment Services and Product Solutions Group, Southeast Asia.

"Our strength is in ensuring that clients stay invested in diversified portfolios, with a core versus satellite investment structure that meets their risk tolerance," he said.

He cited the example of a client who runs a family office and is experienced with asset allocation. The Investment Counsellor assigned to his account added value by showing him how a portfolio of carefully-chosen passive investment offerings can allow him to have sustainable, risk weighted investments that perform at benchmark while he pursues more self-directed beta investments to protect his core assets.

Meanwhile, another client, an entrepreneur, had become disillusioned with public markets due to the lack

of quality portfolio advice from an investment professional.

The HSBC RM brought in a team of Investment Counsellors and Product Specialists and was able to curate a core equity portfolio, along with "satellite" offerings through external managers.

Step by step, they brought the client back into the public markets. "The client was thrilled," Mr Yeo said.

Investing in training

To ensure client needs continue to remain central, HSBC is also continuously investing in training programmes, said Mr Kunz.

"We have courses on doing the right thing by clients, for it is deeply embedded in our principles and values to treat clients fairly. The training is in addition to our robust best-in-class, needs-based approach to selling, fair pricing and full disclosure on products."

Where soft skills are concerned, HSBC is also focusing on getting bankers to understand their clients in a deeper way.

In doing so, the bank can better tap on its Private Wealth Solutions division, one of the world's largest private trust and estate planning businesses.

"We see an emerging need for help in not just corporate governance but family governance," Mr Kunz said.

"With many clients interested in selling their companies in the next few years, the bank also focuses on having a proper structure in place to reach out to clients in case of a liquidity event," he said.

On the products side, Mr Yeo said that bankers are trained to be accountable.

"We aim to keep our frontline team intellectually honest through a rigorous sales management framework, and to hold them accountable on their account plans and suitability checks. Thus the client gets the best of everything," he said.

Products are not put on the shelf just because they are innovative or because someone else is doing it, he said.

"A product governance and oversight committee constantly keeps watch over what clients have access to, which counterparties we should consider, and which ones are aligned with our values and DNA."

Commitment to Singapore

HSBC continues to see opportunities even after a remarkable 140 years of history in Singapore, where its offices still stand on the original site.

"Singapore remains well-positioned to capture opportunities that arises from the Greater China and the various strategic Belt and Road initiatives, or closer to home, an ever-growing Asean middle class," Mr Kunz said.

"With its sound regulatory framework, a pro-business environment, and political stability, Singapore continues to attract trade flows as well as so many multinationals to set up their headquarters here, even as the wealth in Asia Pacific continues to grow."

"HSBC Private Banking is a global pillar for the bank alongside its commercial bank, retail bank, and markets division," he said.

"We are the glue that keeps it all together, ready for when our clients need us."

"Ultimately, what makes HSBC different from its competitors is, our ability to fully embrace the client from a simple credit card to the most complex trusts, across philanthropy, legacy planning, commercial and investment banking needs," Mr Kunz said.

"We embrace clients as a team, at all times, with the highest levels of professionalism. We understand the longer term journey of money, knowing we're at the crossroads of the next generation. With that understanding, we do better than most of the other private banks, especially in Asia."

Our team of Investment Counsellors and Product Specialists supporting the Relationship Manager allows for better and more sustainable outcomes. Clients also enjoy the exposure to more than one person. They feel that the whole of HSBC is coming in to support them. They are enjoying a universe of offerings far greater than what they hoped to see than when relying on just one entry point.

Philip Kunz
Head of Global Private Banking, Southeast Asia
HSBC Private Banking

We aim to keep our frontline team intellectually honest through a rigorous sales management framework, and to hold them accountable on their account plans and suitability checks. Products are not put on the shelf just because they are innovative or because someone else is doing it. A product governance and oversight committee constantly keeps watch over what clients have access to, which counterparties we should consider, and which ones are aligned with our values and DNA.

Kenneth Yeo
Head of Investment Services and
Product Solutions Group, Southeast Asia
HSBC Private Banking

PRIVATE BANK

UOB Private Bank Building for the Future



“Over the last few years, we have been investing prudently in our technology, infrastructure, people and products to enhance our capabilities. This ensures we remain relevant and have the right people on board to advise our clients as the industry continues to develop.”

Ong Yeng Fang
Managing Director
Head of UOB Private Bank

Investing in people, products and platform as DPM assets triple in 2017; wins industry award for organic growth efforts and product platform

For more than eight decades, UOB has been at the forefront of helping businesses in Asia prosper and grow. With personal and corporate wealth so often intertwined among Asian high net worth individuals, Ms Ong Yeng Fang, Managing Director, Head of Private Bank, UOB, is focused on strengthening the Bank's capabilities to ensure the solutions provided to clients are among the most comprehensive in the market.

"Many of the ingredients were already there for success – a strong brand, stable and well-respected management, deep regional presence and base of entrepreneurial clients who have built their own personal and business wealth," Ms Ong said.

"Over the last few years, we have been investing prudently in our technology, infrastructure, people and products to enhance our capabilities. This ensures we remain relevant and have the right people on board to advise our clients as the industry continues to develop."

The Bank has more than doubled the number of its private bankers in Singapore in the past three years. As it has done so, Ms Ong has focused on hiring people with skillsets and competencies and, most importantly, the right values and character to ensure the principle of managing clients' wealth as if it were one's own remained paramount.

As its latest results attest, this approach is appreciated by UOB Private Bank's clients and growth momentum remains strong.

UOB Group's Wealth Management business, comprising its Privilege Banking and High Net Worth (Privilege Reserve and Private Bank) segments, generated a 12 per cent increase in total wealth management assets under management in 2017 to S\$104 billion.

Discretionary management gains ground

A mark of the appreciation UOB's clients have for the Bank's approach to managing clients' wealth is in the rapid increase of its discretionary portfolio management (DPM) assets under management, which have tripled from a year ago.

For DPM solutions, advisers initiate and execute trades based on agreed criteria. UOB offers five DPM strategies to match various risk profiles, as well as tailored solutions.

They are popular with clients too busy managing their own businesses to follow markets closely, as well as those who prefer to let investment professionals make granular investment decisions.

Since the DPM programme was launched in 2016, portfolios have a total return of more than 10 to more than 30 per cent on average.

"What has contributed to the growth in our private banking business is the increasing confidence our clients have in our professional in-house team as they see the investment results we achieve on their behalf," Ms Ong said.

Dr Neo Teng Hwee, the Bank's chief investment officer and head of investment products and solutions, said portfolio managers are empowered to adjust the asset allocations of DPM mandates as market conditions change. Managers also keep a close watch on the risk of portfolio drawdowns.

Looking ahead, he remains positive on the markets after a correction at the beginning of February.

"In a correction that averages 15 per cent, and as such is not a recession, returns usually turn positive in the subsequent three, six, and 12 months," he said.

"UOB favours equities, especially Japan, Europe, emerging markets and Asia. In the fixed income space, it prefers short-duration bonds but is still positive on corporate credit, emerging markets local currency, and alternative fixed income classes like inflation-protected Treasuries and convertible bonds," Dr Neo said.

"We are always on the lookout for the end of the cycle. Typically for big bear markets, the yield curve is seriously inverted, the unemployment rate is rising, and high yield and corporate bond spreads are going up. None of this is happening now."

Asian Private Banker Excellence Award

For its success in generating organic growth and in building a superior investment platform, UOB Private Bank was recently honoured with an "Excellence in Private Banking Singapore" award.

Industry magazine *Asian Private Banker*, which gave the award, said it was particularly impressed by how a large percentage of net new assets in 2017 came from existing clients.

"This is an important measure of client satisfaction at UOB Private Bank," the magazine said.

It also noted how the bank has made significant investments to its platform, such as continually developing its discretionary offering, and adding alternative strategies and direct client access to equities in 2017.

Ms Ong said she was pleased by the award as it represented industry recognition of the Bank's transformation. "This was due to the breadth and width of our product range, and our capabilities to work with clients closely on portfolio allocation," she said.

Tech and start-up internships

To give meaningful support to the next-generation clientele, UOB Private Bank is offering internships in the tech and start-up industries for its newly-established next-generation programme. "Response has been strong both in Singapore and across the world," said Ms Ong.

"In a traditional Asia society, if you came from a rich family, you had a pre-defined path. Now, parents are more willing to give their children a lot more freedom to chart their own courses in life."

There will be around 15 internships within two organisations the bank has partnered.

The first is OurCrowd, a global leading equity crowdfunding platform with offices across the world, including the US, Canada, Spain, the UK, Israel, Singapore, and Australia. Other than UOB, OurCrowd's corporate partners include large multinationals such as Samsung and General Electric.

Mr Gerald Tan, executive director of UOB Private Bank, said: "Given how the world is changing so quickly, the second generation needs to have an international outlook. OurCrowd can offer them that platform."

The second organisation is The FinLab, a fintech startup accelerator backed by UOB and government-backed venture capital fund, SGInnovate. Interns will work with small and medium enterprises (SMEs) to transform them using technology, while learning business and financial skills.

"In a start-up environment, you have to do everything yourself. There are life skills to be learnt here that cannot be obtained from an accounting department or a one-day workshop on financial literacy," Mr Tan said.

New UOB Private Bank Commercials

UOB Private Bank has released its latest television commercials, once again building on the brand's "timeless values". The two new commercials, titled 'The Book' and 'The Newspaper Boy', communicate simple, relatable yet thought-provoking stories where values and relationships are put to the test.

The UOB Private Bank campaign was launched regionally on television on Terrestrial, Channel NewsAsia, CNBC Asia & Europe, CNN, and in-flight on Singapore Airlines and Cathay Pacific.

UBS Wealth Insights 2018

Navigating the changing global landscape

The sixth edition of UBS Wealth Management's flagship Asia Pacific conference "Wealth Insights" in Singapore gathered over 1,300 leading investors, CEOs and entrepreneurs

"Economically, we look forward to another year of global economic growth and strong earnings growth and with that UBS stays overweight in global equities, with a special focus on Asian equities."

Mr August Hatecke
Head of Wealth and Head of Wealth Management Southeast Asia



"Historically, recessions have been caused by one or more of: capacity constraints, oil price shocks, excessively tight monetary policy, contractions in government spending, or financial crises. None look likely to materialise in 2018."

Mr Mark Haefele
Global Chief Investment Officer, UBS Wealth Management



"Asia's economic outlook looks positive, and we're excited about the rise of innovation as the region's next driving force. We see more upside to Asian equities and are most positive on the equity markets of China, Indonesia and Thailand."

Ms Tan Min Lan
Head Chief Investment Office APAC, UBS Wealth Management



By Sarah Yap

After a record-smashing 2017, when global equities chalked up a string of new highs, what will 2018 bring for investors?

Earlier this year, UBS Wealth Management held its annual flagship Asia Pacific "Wealth Insights" conference in Singapore. Those present heard insights on today's hot financial topics from some of the world's brightest economic minds.

With the theme "Changing Context", the event attracted more than 1,300 guests, who heard from experts from UBS, Columbia Threadneedle, Dymon Asia Capital and PIMCO.

This included two keynote speakers, Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, and Mr John Kerry, former US Secretary of State.

Their insights not only equipped investors with the guidance they need to navigate the changes, but also helped them grow and protect their wealth.

UBS proactively engaged clients and kept them informed of the UBS Chief Investment Office's view on investment opportunities and risks, to help clients prepare better for any potential market volatility, such as the one-week stock market dip.

The Fed could raise interest rates four times this year, while APAC central banks could hike rates by around 25 to 50 basis points sometime in 2H18, according to UBS' projections.

The forum is part of a series reaching out to over 3,000 clients in Asia Pacific, held in cities including Hong Kong, Japan and Taiwan.

Mr August Hatecke, Head of Wealth and Head of Wealth Management Southeast Asia, said: "Economically, we look forward to another year of global economic growth and strong earnings growth and with that UBS stays overweight in global equities, with a special focus on Asian equities. However, we will clearly see central banks tightening and with that we expect the return of volatility. We advise investors to stay invested."

"Both the US and China are heavily investing in AI. Technological disruption is here to stay. Automation, robotics, digitalisation, smart mobility are topics that you should keep an eye on and consider investing in."

Asia: The changing context

The panel of experts shared the view that global economic growth — riding on last year's strong momentum — should modestly accelerate from an estimated 3.9 per cent last year to 4.1 per cent this year. In Asia, Japan will likely expand at a steady pace of 1.8 per cent while China will continue to experience a managed slowdown. In contrast, India's growth should overtake China's, rising from 6.6 per cent to 7.4 per cent as economic reforms start to have a positive effect.

However, a key risk lies in rate normalisation. After nearly a decade of exceptional monetary policy accommodation, the US Federal Reserve Board has started tapering its balance sheet, said Ms Tan Min Lan, Head Chief Investment Office APAC, UBS Wealth Management.

The Fed could raise interest rates four times this year, prompting APAC central banks to hike rates by around 25 to 50 basis points sometime in 2H18, according to UBS' projections.

China has already embarked on tightening, with a view to deleveraging its financial system; the upshot is that the 10-year Chinese government bond yield has risen sharply in the past year.

"Historically, recessions have been caused by one or more of: capacity constraints, oil price shocks, excessively tight monetary policy, contractions in government spending, or financial crises," said Mr Mark Haefele, Global Chief Investment Officer, UBS Wealth Management. "None look likely to materialise in 2018."

Singapore: Goldilocks and the three bears

Mr Menon, shared the view that while Asia and Singapore will face some challenges and risk, visitors can prepare sufficiently by understanding the broader landscape.

He summarised the characteristics of the global economy using the Goldilocks story: He warned investors of the "papa bear" — inflation — which may appear to be sleeping at the moment but will catch us off-guard; the "mama bear" of protectionism which can potentially be harmful to the economy with its wide reach beyond goods and services, capital and technology; and the "baby bear" of financial



instability, which carries two perspectives — regulatory reforms strengthen the global financial system, but it is crucial for investors to recognise that the risk is not small, due to the build-up of leverage in recent years.

Positive outlook

UBS remains upbeat on the region's economic and financial markets, and expects equities to outperform fixed income.

In fact, this year should be the first in almost a decade in which every sector will post earnings growth. This broad-based earnings revival should produce 13 to 14 per cent returns for Asia ex-Japan equities, with strength coming from 2017 laggards, banks, Internet stocks, as well as financial and consumer companies in Indonesia and Thailand.

"Asia's economic outlook looks positive, and we're excited about the rise of innovation as the region's next driving force. We see more upside to Asian equities and are most positive on the equity markets of China, Indonesia and Thailand," said Ms Tan.

"Still, uncertainties about monetary policies and geopolitics stress the need for investors to have a well-diversified strategic asset allocation."

Ms Tan and Mr Menon noted that sentiment on the local property market and transactions have picked up visibly, and more attention should be paid to the sector. For instance, investors should consider the impact of the policies implemented by the Singapore government and what these policies aim to achieve.

Embracing tech disruption

Other topics of discussion at the conference included cryptocurrencies and how other technological trends such as Artificial Intelligence, Big Data, the Internet of Things and cybersecurity will collectively continue to have a disruptive influence over the next few years.

In addition, participants heard about how China's Belt and Road initiative and the Guangdong-Hong Kong-Macau Greater Bay Area will help the rising superpower extend its global influence.

UBS' investment specialists summarised the day's views and insights into concrete strategic and tactical investment solutions so that the participants could build a solid investment portfolio. These solutions include equities, bonds, foreign exchange, investment funds, hedge funds and managed portfolios across geographies.

While periods of high economic growth often sow the seeds of their own demise, UBS remains upbeat that there is little evidence today of an impending recession.

Mr Kerry inspired the forum by saying, "Where you put your money, how you invest, and what you do is the biggest marketplace the world has ever seen".

For more details on the Wealth Insights Forums across APAC, visit www.ubs.com/wealthinsights-sg



Mr Menon and Ms Tan shared their insights at the UBS annual flagship conference. PHOTOS: UBS

