

THE BUSINESS TIMES

WHO'S WHO IN PRIVATE BANKING

2018

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2017 strong momentum intact, private banks expect another good year

Despite volatile markets in Q1, optimism remains high

Roundtable participants

- August Hatecke, UBS head of Wealth Management SEA
- Tan Su Shan, DBS Bank group head of consumer banking and wealth management
- Steven Lo, Citi Private Bank, region head, Asia Pacific
- Francesco de Ferrari, Credit Suisse head of private banking, CEO Southeast Asia and frontier markets
- Philip Kunz, HSBC head of private banking, SEA
- Pierre Masclet, Indosuez Wealth Management, Asia CEO and Singapore branch manager
- Sriniripurapu, Standard Chartered Bank, regional head, private banking, Asean and South Asia, and global head, non-resident Indian
- Lok Yim, Deutsche Bank head of wealth management, Asia Pacific, chief country officer, Deutsche Bank, Hong Kong
- Stefan Hofer, LGT Private Banking Asia, chief investment strategist

Moderator: Siow Li Sen, The Business Times

ASIA's private bank industry had a great 2017, assets under management rose a strong 29 per cent to US\$2 trillion, driven by strong flows from China and buoyant financial markets, according to Asian Private Banker.

In a roundtable discussion, private bankers tell *The Business Times* the driving forces behind last year's robust growth remains intact and 2018's first quarter results are proof of that momentum.

Tell us about your performance in Q1 2018.

August Hatecke: UBS wealth management Asia Pacific delivered another set of strong results with record pre-tax profits, crossing the 300 million Swiss francs (S\$401 million) mark for the first time. Our invested assets stand at 379 billion Swiss francs with positive net new money flows of 6 billion Swiss francs, consolidating our position as the number one wealth manager in the region.

Tan Su Shan: In Q1 2018, our total wealth management AUM went up by 22 per cent to S\$208 billion and our total consumer banking/wealth management income also increased by 17 per cent to S\$1.36 billion.

Steven Lo: We had a great start this year posting our best ever quarter. In fact if you think of 2017 as a banner year for the industry, our Q1 results are 37 per cent above last year. The strength of our performance was not attributable to any single product or country. There was consistent momentum across all product lines and all countries.

Francesco de Ferrari: We had a very strong first quarter reaching a few record highs. Net Revenues of 455 million Swiss francs, up 11 per cent; AUM 199 billion Swiss francs, up 12 per cent; and pre-tax income 170 million Swiss francs, up 22 per cent.



"On equities, we saw interest for structured notes with principal protection features on top of providing some degree of upside participation. Given the higher volatility, there was also interest in structured notes that enable clients to buy quality underlying equities at a discount to spot prices, while enjoying an attractive coupon interest at the same time."

Tan Su Shan

Philip Kunz: Off the back of a solid 2017 performance, HSBC Private Banking maintained business momentum in the first quarter of 2018. We grew client assets for the fifth consecutive quarter and attracted positive inflows of US\$5.3 billion (as of March 31, 2018) in the areas targeted for growth globally.

For our business in South-east Asia, we saw similar continued performance improvement as we focus on sustainable growth. Globally, adjusted revenue was up 10 per cent contributing to a 53 per cent increase in adjusted profit before tax. It's a promising start to the year, with Asia continuing to drive growth in our global private banking business.

Markets were volatile in Q1, how did clients cope?

Steven: Clients have proven to be relatively patient through the bouts of volatility we have seen, partially as a function of generally excellent investment returns achieved in 2017. In some cases, clients were taking the opportunity of a dip to buy into risk assets. As we move into Q2, we have seen a generally "cautiously optimistic" picture emerging, and higher levels of volatility have driven higher activity levels particularly in FX.

Su Shan: At DBS, the flight toward quality and safety was evident among our clients. On equities, we saw interest for structured notes with principal protection features on top of providing some degree of upside participation. Given the higher volatility, there was also interest in structured notes that enable clients to buy quality underlying equities at a discount to spot prices, while enjoying an attractive coupon interest at the same time.

On bonds, there have been increased requests for shorter-dated and investment grade names. On mutual funds, the focus was on diversification, as flows were seen moving into multi-asset funds. Fixed-maturity bond funds generated great interest, as they were diversified pool of credits with underlying maturities that were capped.

Francesco: Amid rising market volatility, we have been advising clients to focus on balanced portfolios which provide diversification. Clients have also been interested in capital protected structured products which preserve capital while providing the option to participate on the upside. On top of this, we have seen strong interest in our "Supertrends" investment themes, which tap into long-term themes like demographic shifts and rapid technological progress. These themes can sail through volatile times and deliver sustainable returns in the long-term.

Pierre Masclet: Markets started to see increased volatility at the end of February. The VIX index that gauges volatility levels of the market in general, spiked tremendously after a very long period of almost "abnormally" low volatility levels. We had already been cautious about this low volatility level for some time and whilst we were still positive on markets in general, we had started advising our clients towards the end of 2017 to be more specific and targeted in their investment allocations, rather than just riding the momentum wave. We also advised our clients to hedge some of their positions, at least partially, and to

look for capital protection where possible.

How is real estate investment as an asset class doing – Reits and or physical property – given Asians' love for property?

August: In our latest Investor Watch Singapore survey, a majority of the Singapore millionaire respondents responded that they believe that real estate is a viable investment. Although listed Reits might potentially offer high dividends, we would caution investors to be aware that the recent rising rates could potentially pose a near term headwind to this sector. UBS CIO recommends that investors should be selective in the Reits sector, as some Reits might be adversely impacted by rising rental costs.

Steven: Given the strong returns from real estate in many parts of the world over the last seven to eight years, we are seeing a little moderation in demand as expected returns have declined. We still see pockets of demand, particularly for trophy assets in key cities in Europe and the US.

Sriniripurapu: Global Reits has been a consistent income generator for investors over the last four years from 2014 to 2017. But this is set to change, as higher bond yields put a brake to the sector's multi-year rally. In Singapore, we expect a gradual improvement in rental environment, particularly for industrial and commercial property.

There is an increasing need for higher-value industrial space including business parks due to ongoing government initiatives, and this should support the rental outlook for business parks. In addition, Grade A office rental growth could accelerate, amid benign supply, driven by the growing number of new company formation and better employment numbers.

What's the investment advice for the rest of the year?

Lok Yim: We still like equities in the rest of year, due to the resilient macroeconomic environment and the positive corporate earnings. In particular, we like European banks, as we think they would benefit from the prospect of rising yields and their better management of non-performing loans in the improving economic environment. Besides, we are forecasting weaker Euro against USD in 2H this year, which should support European equities including banks.

We still favour Asia tech stocks despite the recent pullbacks. We think Asia tech companies are on a structurally positive growth trend and their earnings growth should continue to outperform market expectations. In addition, we also like Japanese equities, as we are seeing Japanese economy is showing continual improvement with higher inflation and strong capex investment cycle.

Pierre: Our best case scenario is that global GDP growth for the year matches that of 2017 although there are regional differences. As global GDP growth in 2017 was very robust, this means we foresee another strong year, especially for emerging markets and within those, especially China.

The region is still "under-owned" and valuations are attractive. Looking at valuations, we are more cautious

when it comes to the US as these are somewhat on the high side and we are also careful when it comes to the UK.

Philip: Notably, we believe EM Asia will see sustained economic and earnings growth, and it remains our favourite region in our equity allocation.

Steven: We encourage clients to remain fully diversified in terms of asset class and regional exposure and to also retain a little liquidity to be deployed into potential short term market dislocations. We continue to favour emerging markets, particularly China. We are also helping clients to increase allocations into technology names in Asia.

Sriniripurapu: Equities, particularly those in Asia ex-Japan and the US, remain our most preferred asset class. We are also of the view that we are at a relatively late stage in the economic cycle, a period when equity markets tend to deliver some of their strongest returns. Our preferred area in bonds remains in emerging markets, where government bonds appear to offer a lot of value while Asian corporate bonds offer an attractive way to earn a yield at lower volatility than other major corporate bond markets.

August: UBS CIO have made some notable adjustments in our tactical positioning. This includes a larger number of currency trades that should allow for the generation of positive returns independent of how other asset classes fare. In addition, we have started to build up protective position that should do well in a steady state, but could also help performance in temporary set back situations.

Examples include an overweight of 10 year US Treasury bonds versus cash. Another example is our JPY overweight that could work well both, in case of the Bank of Japan preparing for a QE exit but also in an outright risk off scenario. In Asia we are overweight in China versus an underweight in Taiwan.

Furthermore, we have started to partially hedge some downside risk with equity put options in view of a maturing cycle. In such periods, we often observe that there are still substantial equity returns but at the same time, a higher frequency of periodic set backs.

Stefan Hofer: Central banks will likely keep normalising monetary conditions, but avoid policy error (such as hiking rates too fast and causing a recession) and therefore growth will likely remain above trend. We also expect the US dollar to weaken over the course of the year, in part due to the substantial widening of fiscal deficits there. This means, for example, that we recommend investors to buy both European and Japanese equities, without hedging the FX exposure. Our preferred sectors are financials, energy and healthcare.

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Pierre Masclet



ESG investing often starts with something as simple as promoting energy efficiency, or avoiding disasters like oil spills, but is often much more sophisticated, such as focusing on positive community contributions or avoiding corporate scandals. PHOTO: AFP

Rise and rise of the socially-conscious investor

There is rising evidence that allocating a part of one's investments using strategies that incorporate ESG can have numerous benefits. **BY MANPREET GILL**

INVESTORS and companies are becoming increasingly aware of their environmental, social and governance (ESG) footprint. This often starts with something as simple as promoting energy efficiency or avoiding disasters like oil spills, but is often much more sophisticated, such as focusing on positive community contributions or avoiding corporate scandals.

As an investor, there is rising evidence that allocating at least a part of one's investments using strategies that incorporate ESG can have numerous benefits, regardless of whether one's goal is improving the 'impact' profile of an investment allocation or simply ending up with a better investment outcome.

What is ESG investing?

ESG investing involves applying a set of agreed criteria to select companies on the basis of corporate sustainability. Examples of common criteria include those agreed at the UN Global Compact, the UN Principles for Responsible Investing (PRI) and the Sustainability Accounting and Standards Board.

'Sustainability' as an investment approach is now a well-researched ap-

proach to investing, with one study arguing that more than 20 per cent of global assets are now managed in a 'sustainable and responsible' way.

Moreover, awareness of ESG issues has grown considerably over time, as evidenced by the rising use of ESG data. The trend is not just a phenomenon for institutional investors alone – a recent study found that almost 60 per cent of ultra-high net worth families considered impact investing as a distinct asset class.

But there is clearly room for investor awareness to rise further. A bank-commissioned survey on sustainable investing trends noted that a 'lack of information' was the main barrier against adding more investments in ESG strategies, while the perception of lower returns vs regular investment strategies (a view we disagree with later in this piece) appears to be a second hurdle.

The reasons for adopting a 'sustainable' investment approach can vary, and this may not be performance-oriented alone. Some investors may see ESG as a way to simply enhance investment returns. Others may see this as an investment approach that is consistent with their values or beliefs where a simple risk-return framework may not be always applicable.



“Studies suggest ESG-compliant firms face lower costs of capital and a low risk premium due to greater transparency. Such firms tend to face a lower risk of their assets becoming ‘stranded assets’ or worthless.”

Manpreet Gill (above)

For example, an investor may choose to avoid investments in alcohol, tobacco or gambling as they may find these socially objectionable.

We see ESG as a strategy that can help achieve three goals: potentially outperform the broader market in select situations, reduce volatility of investment allocations, and ensure more socially-responsible investing for a given investment allocation.

So how does it work?

When it comes to applying ESG to an investment strategy, there are many approaches. Initial efforts tended to concentrate on an 'exclusionary' approach, which screen the investible universe with these criteria before applying any other investment decision-making processes to this reduced universe, often at an industry level. The main downside of this approach is blindly screening out potentially strong sources of investment performance.

More nuanced approaches, instead, incorporate ESG as an additional factor within a broader investment decision-making process, or involve actively working with companies to improve their sustainability scores.

The good news is that there is wide agreement that ESG investing does not come at the cost of inferior

investment returns. This means that investors who want to ensure their financial investments also have a positive sustainability impact are able to achieve this goal via ESG strategies without sacrificing investment returns.

ESG investing may actually end up helping investors build a better investment allocation. There is much evidence that incorporation of sustainability factors leads to improved risk management.

Studies suggest ESG-compliant firms face lower costs of capital and a low risk premium due to greater transparency. Such firms tend to face a lower risk of their assets becoming 'stranded assets' or worthless.

For an ESG-focussed investor, this means that even if returns with and without ESG factors are similar, the same return may be obtained by taking less risk. This point is illustrated in the chart, where we show that investment allocations that include a small allocation to ESG equities offer better returns for the level of risk taken in most cases.

The evidence on whether an ESG-based investment strategy leads to outperformance relative to a global equities benchmark is mixed. While a majority of studies argue there is a reasonably high chance that adding

ESG criteria can lead to better investment returns over time, this is often sensitive to whether the ESG criteria are used to simply screen out investments that do not meet the conditions, or whether they are used as an additional factor as part of a broader investment process.

Where the evidence appears more compelling is that incorporating 'sustainability' as a criterion appears to support improved corporate performance in specific parts of the market, such as bonds, real estate and emerging market equities.

ESG investing does not come without its own risks. One critique comes from studies that show that active exclusion of 'sin' sectors (such as alcohol and tobacco) can detract from performance over time. A greater share of the market trying to meet the ESG criteria means it will mathematically become harder and harder for the approach to outperform. Nevertheless, on balance, we believe the positive characteristics of ESG investing outweigh the risks, causing us to take a constructive view on incorporating ESG into one's investment strategy.

■ The writer is head of Fixed Income, Currency and Commodity Strategy at Standard Chartered Private Bank.

How can we have trade war when US-China 'trade deficit' is disappearing?

By Prashant Bhayani

MUCH ink has been spilt on the topic of trade tension. But the simplistic response that "trade wars are not good, everyone loses" is not all that helpful to analysing the root causes of the current situation. Furthermore, neither is a trade surplus useful as a barometer of competitiveness.

Firstly, it is important to remember that trade tensions have been going on for many decades. The recent steel and aluminium one-off tariffs by the US have been occurring between the US, Europe and Asia for many decades, and have not been material in their impact on overall global GDP.

But the rhetoric is building to a new crescendo with the current renegotiations of Nafta, additional US\$50 billion tariffs proposed by the US against China, and escalating tension around intellectual property.

So why now? Despite the remarkable growth in global trade and wealth, there has also been a concomitant increase in income inequality globally. For example, the top 1 per cent income earners in the US have doubled their share of the national income to more than 22 per cent since the 1950s.

Asia is not immune as well from the increase in income inequality. Many of the gains have benefited college educated workers disproportionately, increasing income disparities.

Finally, multi-lateral organisations like the WTO have not been as effective at levelling the playing field, with China and other emerging countries entrance, especially on the opaque, non-tariff barriers to trade.



So how can governments address this while still increasing the total size of the economic pie?

Firstly, it is clear that a number of developing countries including China need to further liberalise their trade policies. For example, the simple average of China's tariffs on traded US goods are estimated nearly three times higher than the tariffs the US applies to Chinese goods.

US President Donald Trump tweeted, "When a car is sent to the United States from China, there is a tariff to be paid of 2.5%. When a car is sent to China from the United States, there is a tariff to be paid of 25%."

But this is normal for any country at a developing stage, but given

China's emergence, it has the ability to lower tariffs and to open up incrementally.

This is in-line with Chinese President Xi Jinping's reform agenda to bring down protection for excess capacity industries, spur competition in China, and reduce the economy's reliance on government support via implicitly guarantees on debt.

The big question is can it happen fast enough given the challenges of managing that in the social context of China's economy?

But the even more contentious issues are the non-tariff barriers to trade. This is when countries require joint venture partners in selected industries, technology transfer, and en-

act policy barriers to impede foreign companies.

In China, this is of particular focus given the "Made in China 2025" plans. Importantly, China recently agreed to liberalise, allowing majority foreign ownership in the financial sector, lower auto tariffs over time, and increase protection of intellectual property. Clearly on the intellectual property, the proof will be in the pudding.

Intriguingly, that has been more of a concern as both the US and Europe are now utilising similar policies allegedly used by the foreign governments. For instance, the recent Broadcom takeover of Qualcomm was put on hold for national security reasons by the Committee on Foreign Invest-

ment in the United States (CFIUS), an interagency committee.

Presently, the Trump administration is looking to broaden the powers of CFIUS. Europe, Australia and other countries are also acting to review Chinese investment in sensitive industries. Hence, the battle for a level playing field continues but there are risks of creating a trade war.

In addition, while reciprocal trade is good in principle, trade surplus is an imprecise and poor measure of a country's competitive position, since trade deficit or surplus only accounts for goods produced in one country and sold to another, and does not include the sale of goods and services that are simultaneously locally produced and sold.

A good example is Apple in China. Apple produced and sold more than 300 million iPhones in China, more than double the sales in the US with US\$48 billion in 2016. Amazingly, the "official" trade statistics show just US\$1 million of imports into China of US phones in the same year.

Similarly for GM, China is its largest market by car sales, largely via joint venture sales in China. Ironically, the sales of US subsidiaries in China are the fastest growing area of trade between the US and China, and at the same time completely invisible in trade statistics.

The sales of US subsidiaries in China have exploded, growing at an estimated annual pace of 18 per cent from 2009 to 2015. It is estimated that if the subsidiary sales of US subsidiaries in China is added in, the trade deficit evaporates astonishingly from US\$367 billion in 2015 to just US\$30 billion. It could even be in surplus at present times. Yes, surplus!

But this does not solve the income inequality and populist political issues as the profits from Apple iPhone profits largely accrue to workers with

college degrees and shareholders. In conclusion, trade balances don't account for the foreign direct investment channel (US subsidiaries in China).

So how do we assess the likelihood of a full-blown trade war? Of course, that risk should not be dismissed. But little attention has been given to the US and South Korea agreeing in principle to a new trade agreement and a key milestone to monitor will be the Nafta negotiations ahead of US-China negotiations this year.

While it is true that China's economy is more dependent on exports to the US, the overall sales balance including the China subsidiary sales of US multinationals could almost be in balance. While the US economy is less dependent on exports, the US stock market could react more negatively than the US economy to any trade war as more than 40 per cent of sales are international in nature.

This could also make a noticeable check on the extent of a trade war especially before mid-term elections in November in the US. Simultaneously, as China gradually liberalises while the US and Europe push for more open and reciprocal trade, it can result in a healthier and more balanced global economy.

The time to do it is definitely now as we are experiencing synchronised global growth. Incidentally, it is unprecedented in recent times to have this level of populism when growth is robust.

There is room for compromise but the path to an agreement could be long and tenuous while it is likely that the issues of income inequality and populism may intensify in the next global downturn rather than going away.

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



“There is room for compromise but the path to an agreement could be long and tenuous while it is likely that the issues of income inequality and populism may intensify in the next global downturn rather than going away.”

Prashant Bhayani (right)

Infrastructure is no longer just airports and gas pipelines

The infrastructure asset class is being redefined by digitalisation, urbanisation. BY DONALD RICE

THINK about infrastructure, and you might picture a yawn-inducing mix of power plants, gas pipelines, water treatment plants, airports, railways and toll roads.

These facilities, after all, provide essential services to the economy. Yet they are not the only types of infrastructure assets out there.

Today, the infrastructure asset class is being redefined by digitalisation, urbanisation, and an ageing society. The "toll roads" of the future will be fibre networks transporting not cars, but high-speed data.

Data storage locations will be as essential to daily life as power plants.

As societies age, managed living facilities will grow in importance. And as societies go green, renewable energy will play a bigger role.

Trends like digitalisation, along with other factors, have thrust infrastructure investing back in the spotlight for both institutional and private investors. Decades of neglect and inadequate funding have resulted in a massive funding gap which can be closed only by increased cooperation between the public and private sectors.

Global infrastructure investment needs are expected to reach US\$57 trillion from 2012 to 2030, a 60 per cent increase over the 1994-2012 period.

A report from the Organisation for Economic Co-operation and Development (OECD) shows that infrastructure investment has fallen from 4.5 per cent of gross domestic product during the 1980s to only 3.1 per cent in 2015.

The need for infrastructure is fre-

quently cited in headlines. Infrastructure investment is brandished as a policy tool by governments globally to create more jobs and stimulate the economy.

Yet with high public debt levels and a broad-based resistance to higher taxes, governments are turning to other investors to bridge the gap.

While infrastructure assets have long been the preserve of pension funds, sovereign wealth funds and insurance companies, private investors are increasingly taking notice.

After all, infrastructure is defensive in nature due to the underlying assets providing essential services. This can result in attractive and more predictable cash flows.

Rates are often determined by regulators and settled through concession agreements with governments. These agreements are long term in

nature, with rates that can increase with economic growth or inflation.

The benefits do not end here. Infrastructure has also historically demonstrated an almost zero correlation to equities and to other asset classes.

Yet infrastructure investing is not without risks.

Assets are often illiquid because projects can be sizeable, take a long time to develop, and are unique. Regulations can place limits on the number of potential buyers. There are also political and legal risks for investors venturing into regions without an established regulatory framework.

An infrastructure fund should also be evaluated for its reliance on leverage as well as for its asset mix.

A fund might be involved in a number of greenfield, early-stage developments. These projects carry design and build risks, and may not generate cash flow until they are completed.

Greenfield projects can stretch

over many years, and are subject to cost overruns or regulatory changes.

Depending on one's risk appetite and tolerance for illiquidity, one can invest in a variety of different infrastructure assets through vehicles like funds.

But one trend is worth noting. Large institutions like sovereign wealth funds and pension funds are making direct investments in the infrastructure space, often driving up valuations and depressing yields.

Investors seeking slightly more robust returns might want to evaluate infrastructure managers focusing on the middle-market space.

There, funds buy individual assets in the US\$100 million to US\$500 million range, as opposed to the billions.

This segment of the market is less efficient, hence the higher return opportunities.

By avoiding the larger multi-billion dollar deals, middle-market transactions benefit from the less competitive bidding environment. Investors are also in a better position to exert more control over the investment and its eventual outcome.

Meanwhile, it is interesting to note that infrastructure funds focusing on OECD markets have often outperformed their emerging market counterparts, possibly due to lower political risk.

Thus middle-market infrastructure investing might reward the investor by providing stable yields while still maintaining the potential for longer-term upside.

By partnering established managers with deep operational expertise, investors can still benefit from infrastructure assets for decades to come – from stodgy airports to the digital toll roads of the future.

■ The writer is head of alternative fund solutions, Private Banking Asia Pacific, Credit Suisse



“Infrastructure investment is brandished as a policy tool by governments globally to create more jobs and stimulate the economy. Yet with high public debt levels and a broad-based resistance to higher taxes, governments are turning to other investors to bridge the gap.”

Donald Rice (left)



A cloud rack containing servers and hard drives at IBM's Softlayer data centre. Data storage locations will be as essential to daily life as power plants. PHOTO: BLOOMBERG

Key themes when investing in Chinese equities in 2018

Chinese IT/e-commerce, banks, healthcare, insurance and consumer staples are favourite sectors. BY TUAN HUYNH

DESPITE the recent market volatilities, we remain constructive over Chinese equities, especially the new economy sectors. We think there are six key investment themes in investing in Chinese equities in 2018.

We like the Chinese IT/e-commerce, banks, healthcare, insurance and consumer staples sectors.

Here are the six key investment themes:

Traditional economy sectors continue to slow

We believe that China's GDP growth in 2018 will be dragged by the slowdown of the traditional sectors such as the debt-reliant areas of infrastructure and real estate.

China's infrastructure investment increased by 15.8 per cent in 2017 and we think some moderation in growth is likely this year.

The government slowed down new project approvals late last year in response to the quick debt build-up. Project pipelines are likely to shrink as infrastructure investment growth decelerates this year.

Real estate investment growth is also likely to ease with the cooling property market. Real estate investment increased by 7 per cent in 2017 overall but had already started to moderate in the second half of the year in response to government tightening measures.

As the government continues to de-leverage the economy, we think property sales will slow down in a higher interest rate environment. We think the government is unlikely to loosen the strict property market rules this year because it will want to continue to be seen as vigilant on speculation.

The construction of rental housing will be a focus this year.

New economy sectors are still key growth drivers

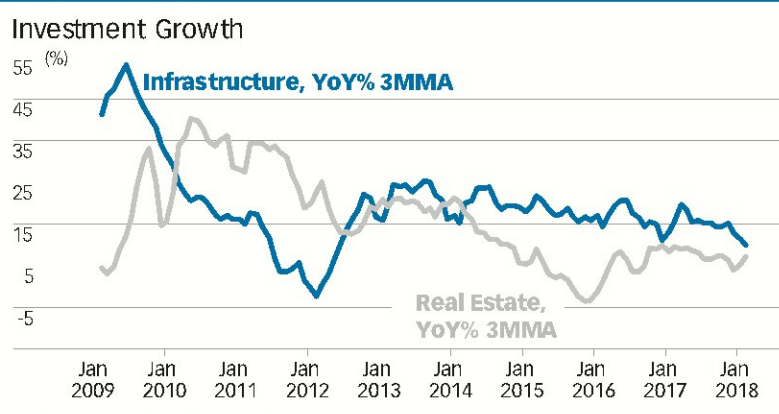
On the other hand, we remain constructive on the new economy sectors (e-commerce, Internet, healthcare, consumption upgrade) as we think they are still on a secular growth path.

Chinese consumers are changing their consumption patterns, shifting part of their purchases from brick-and-mortar stores to online



Chinese consumers are changing their consumption patterns, shifting part of their purchases from brick-and-mortar stores to online stores. PHOTO: AFP

Slowing down



Note: 3MMA (3 month moving average)

Source: Deutsche Bank Wealth Management

stores. This consumption pattern change is irreversible and ongoing.

Besides, as households' disposable income rises with higher wage growth, there is an obvious trend upgrading the sort of goods (or services) bought. Chinese consumers now prefer higher-quality and more individualised products, and they are spending more on healthcare and insurance.

Further de-leveraging to reduce financial risks

Reducing financial risk remains the top priority this year, and the government will continue to push financial de-leveraging and state-owned enterprise de-leveraging.

China's debt growth moderated recently and credit growth generally improved with rebound in industrial profits. In December 2017, 85 per cent of China's steel companies made profits, compared to December 2015, when only 5 per cent of steel companies made profits.

Corporates have used the higher profits and better free cash flows to fix their balance sheets as industrial companies saw their liability-to-asset ratios decline in 2017.

We believe these positive developments will be supportive of large banks as they will be benefit from the

better credit quality of industrial corporates, and they are less likely to be affected by financial de-leveraging and regulatory tightening than smaller institutions.

Higher market interest rate amid financial de-leveraging environment will also support the net interest margin expansion of the large banks, in our view.

Industrial consolidation

In 2018, we believe the tight monetary environment will benefit the industry leaders due to their better access to low-cost funding, especially in the property sector. Industry leaders should gain more market share because of their better pricing power this year, as they are also not likely to be affected by government's environmental inspections to clean up capacity with higher pollution.

Higher CPI, lower PPI

China's consumer price inflation was low at 1.6 per cent in 2017 due to the unusually low food price. But we believe the inflation will rise in 2018, driven by higher food prices, increased wage growth and higher raw material prices. We think higher CPI will benefit consumer staples.

On the other hand, producer price inflation will likely fall back from its high of 6.3 per cent in 2017, and may affect the profit growth of upstream industrial sectors.

Higher volatility driven by external factors

China's economy benefited from a strong export recovery in 2017. But a number of risks related to the external environment exist this year.

Volatility in global financial markets seems likely to rise, particularly if the Fed hikes rates faster than expected, and the ECB's monetary policy will also be in transition.

Besides, the US and China may see more trade friction this year as trade protectionism is on the rise. If there is a slowdown in external demand this year (which we do not expect), we think the government may consider loosening tight de-leveraging measures to support domestic demand.

Based on these investment themes, we like the IT/e-commerce, banks, healthcare, insurance and consumer staples sectors. Meanwhile, we

hold a neutral view on the property sector. We are relatively cautious over the industrials sector.

■ **IT/e-commerce:** Chinese e-commerce companies should benefit from the monetisation efforts of their non-current revenue sources. China's online retail market should continue to grow on a secular trend.

■ **Banks:** China's large banks should see wider net interest margin as a result of the government's de-leveraging efforts which could lead to higher interest rates. The overall positive economic environment should cap the downside in the corporate balance sheet of their borrowers.

■ **Healthcare:** The healthcare sector should benefit from the stronger demand for better medical services amid the rising household disposable income. The demand for healthcare product and services should continue to rise with ageing population.

■ **Insurance:** China's insurance sector should see continual and stable growth in 2018, driven by the rising demand for insurance protection from consumer as well as the expansion of distribution capacity.

■ **Consumer staples:** China's consumer staples should benefit from the higher CPI in China this year. Higher household income should drive the trend of premiumisation in consumer staples space.

■ **Property:** We expect slower sales growth in Chinese property companies given the tight monetary environment and government's intentions to slow down property investment. But any significant price decline in China's property price is unlikely, in our view. Industry consolidation will be visible in China's property industry.

■ **Industrials:** We are relatively cautious over China's industrial sector, due to the slowdown of infrastructure and property investments this year. The government has already slowed the approvals of many private-public-partnership infrastructure projects.



■ The writer is chief investment officer, Asia Pacific, Deutsche Bank Wealth Management

Artificial Intelligence – investing in the future

Global GDP is estimated to be 14% higher (about US\$15 trillion) in 2030 as a result of accelerating development and AI adoption. **BY JULIEN COLLIN**

ARTIFICIAL Intelligence (AI) may be the buzz word today, but it is certainly not a new field as it has been developed over the last 50 years. Yet, it is now becoming mainstream, thanks to bigger data, faster computers and smarter algorithms.

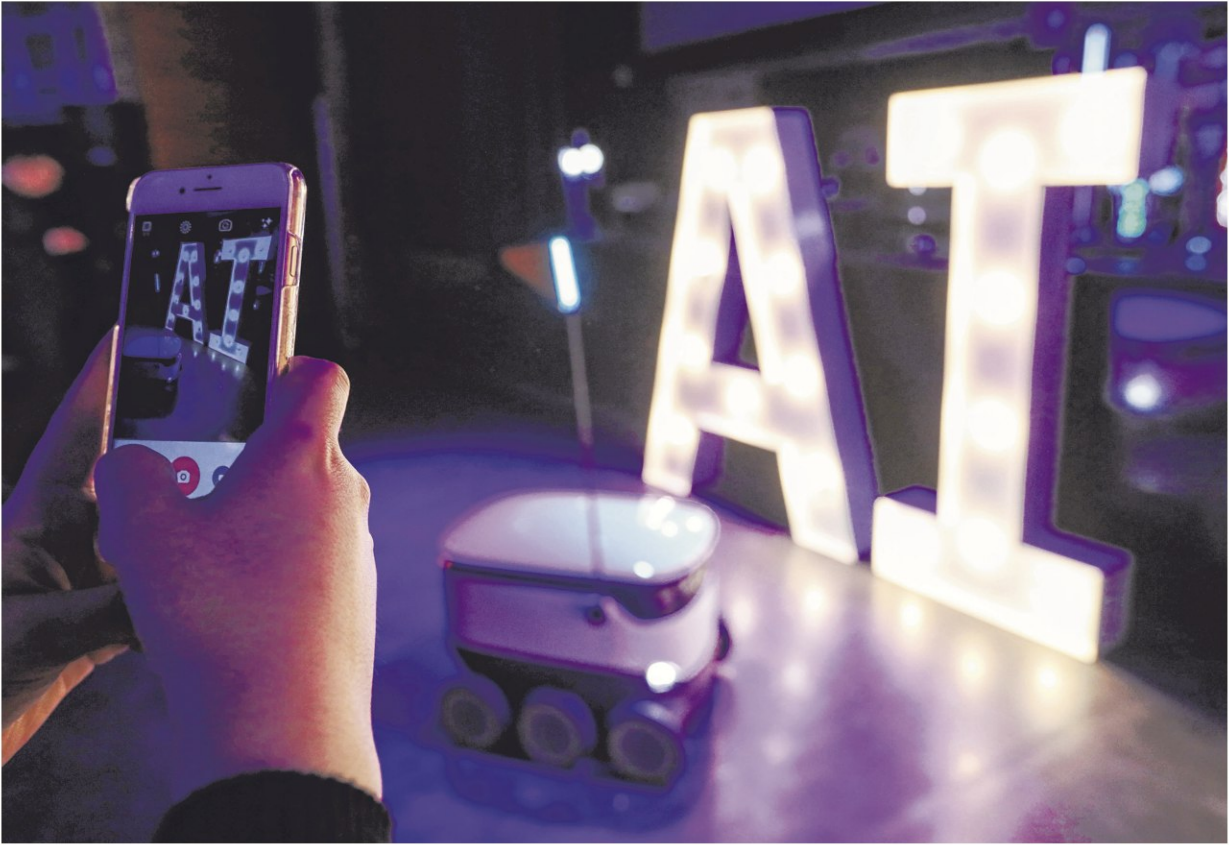
Defined as the simulation of human intelligence by machines, AI is quite different from software programs in that it extracts knowledge from data without being specifically programmed. AI enables computer systems to perform tasks that normally requires human intelligence, such as visual perception, speech-recognition, decision-making and translation.

AI is a set of software tools and algorithms that can be embedded in hardware products or software platforms. It is a disruptive technology with profound implications in every aspect of our lives and across sectors such as healthcare, banking, retail, transportation, industrial and education.

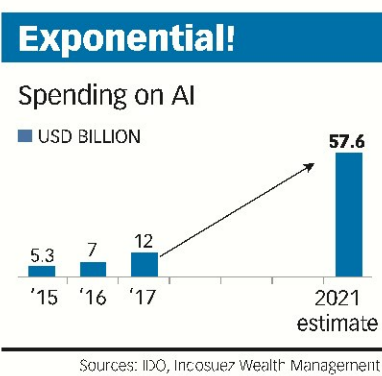
Given the vast amount of global digital information captured in ever-growing volumes – 90 per cent of all digital data was created in just the past two years – there is a massive market opportunity for AI, with its market size expected to reach US\$127 billion in 2025 compared to US\$3.6 billion in 2016, according to BoAML Research.

Last year, US\$12 billion was invested on AI-focused hardware, software and services, an amount that could reach close to US\$60 billion by 2021.

Opportunities to invest in AI have never been more sought after, with the big tech companies in the US and China racing to develop their own AI



An autonomous parcel delivery robot, developed by Starship Technologies, on display at the AI Congress in London in January. AI is finding its way into businesses. PHOTO: BLOOMBERG



technology. In the US, more mature players, dynamic ecosystems, large capital inflows and favourable access to private capital have enabled the rapid rise of disruptive technologies.

US tech giants such as Google, Apple, Facebook, Twitter, Intel and Microsoft lead the market and have been very active in acquiring AI companies. Over 250 private companies using AI algorithms across different industries have been acquired since 2012, with 37 acquisitions in the first quarter of 2017 alone.

Despite having the highest growth potential, largest potential user base and a deep mobile penetration, Asia is lagging just behind the US with fewer, but fast-growing pure disruptive technology players and invest-

ments. Asian names such as Baidu, Alibaba and Tencent have huge ambitions to quickly fill in the gaps vis-à-vis their US peers. The Chinese government is also expected to invest significantly in the AI market.

AI matters at the macro level. Global GDP is estimated to be 14 per cent higher (equivalent to US\$15 trillion) in 2030 as a result of accelerating development and AI adoption.

The economic impact of AI on global GDP will be driven by productivity gains from companies automating their processes, including the use of robotics, making AI-related investments, and personalising and enhancing their offerings which feed increased consumer demand.

I believe AI will not only increase



“I believe AI will not only increase productivity, but also create job opportunities in the long run.”

Julien Collin (above)

productivity, but also create job opportunities in the long run. Since the industrial revolution, people have always had the unfounded fear that technology will take away more jobs than it creates.

Yet, economic theory and history teach us otherwise. While AI will create more jobs than it destroys, we must be prepared for the temporary pain of disruption.

Governments must be future-looking and be prepared to ease society through the transition. Sovereign bonds will certainly benefit from this disruptive but disinflationary environment.

AI will be key to finding ways to redesign existing products so that they consume fewer materials, further re-

ducing the demand for commodities, assuming everything else remains constant. Demand for commodities is hence unlikely to rise.

For other asset classes, the implications are less clear. We can expect robotics and technology industries to see sustained growth while there could be massive disruption in the auto and oil sectors.

Since the beginning of the year, with market volatility returned, we believe it makes sense to identify and invest on secular themes that have long-term growth potential, such as AI. We also see increasing investment demand from our ultra-high net worth clients in that respect.

Still, it is early days to tell who will be the ultimate winners. Therefore, we advise gaining exposure to AI through a list of stocks and structured products. Thanks to our Switzerland-based Indosuez AI experts with Asian insights from our Hong Kong and Singapore advisors, we have built dedicated advisory mandates on AI and Technology.

More specifically, our AI mandate is designed specifically to benefit from AI development in the market and covers numerous investment themes such as cloud, e-commerce and payments, digital advertising, software as a service, robotics, Internet of Things, cyber security, gaming, and virtual/augmented reality.

The portfolio now has shareholdings in 31 companies across all major regions and weightage based on a scoring system that takes into account liquidity, AI purity, valuation, technical, and consensus momentum. It can easily be customised to our clients' appetite and will soon be distributed via Actively Managed Certificates.

■ The Singapore-based writer is head of markets, investment and structuring, Indosuez Wealth Management

How to be a wise passion investor

Don't end up with a collection of worthless artwork that you don't even like. **BY EDIE HU**

INVESTING in art, like all other investments, can be a risky undertaking, especially when one is not fully aware of or familiar with the nuances of the art world.

The worst that could happen is that you end up with a collection of worthless art that you do not even like. A more optimum outcome would be that you enjoy the art and when you sell them, you are able to make a return on your investment.

Here are some tips for buying art with a view for investment.

First rule of buying art is: Do not buy art for investment. Most art advisors tell their clients to buy art that they like. Even if the art that you bought does not increase in value, at least it is something that you can still enjoy – another reason why this is called passion investing.

Enlist the help of an unbiased art advisor. It is always helpful to have professional guidance because the art world thrives on insider knowledge. So if you are just going at it on your own, you might miss opportunities, overpay or end up buying a fake.

If you rely solely on the advice of someone with a financial interest in the work you are buying, you may end up with pieces that are overpriced or of inferior quality. If you are asking them for advice on what to buy, they might just push you on to something that they know they are having trouble selling.

An independent art advisor not hoping for a commission from a gallery or auction house could offer a more balanced view.

If you are just starting out collecting, do not focus on what is super hot at the moment. It's easy to get caught up in the hype because all you read about in the news are the headline-grabbing prices.

But the most popular artists are more often than not, going to be ex-

tremely expensive and often peaking. Instead, look at earlier trends that were once considered in vogue, like Old Masters, American and 19th Century European art.

Like fashion trends that come and go, top-performing artists who are overlooked at the moment could come back in popularity in future.

You can also consider artists from regions that are seen by the West as "emerging", like the Middle East and Africa. Other areas that are currently under-valued are Contemporary Chinese Ink painting and works by female artists.

A mistake that many collectors make is focusing too much on the brand names like Picasso, Monet and Warhol. Every artist has good days and bad days, and these masters are no exception. There are plenty of bad Picassos on the market. You might think that you found a bargain – a cheap Picasso! But most likely there is a reason it was inexpensive (quality, condition, date, subject matter) and you will find out only later that your "bargain" might not have increased very much in value.

"Art investment" companies have been cropping up all over Asia in the last few years. Many are targeting individuals who are investment-savvy with some disposable income, who want to get into alternative investments like art but are art neophytes.

The companies generally tout how much returns you will get in two years, and that you do not even have to see the art because they will help you rent the art out to an office as wall decoration while you collect rental income. After the one- or two-year contract is over, you are stuck with worthless art that no one wants. Many of these are set up like a Ponzi scheme and should be avoided.

Be patient. Be prepared to hold on to your art for at least five years or longer. Good art collectors take their time and see what's out there first before buying. Don't buy in a hurry, do your homework.

Build rapport within the art community. It is seen as bad form to flip art that you just bought at a gallery and turn around immediately to sell it in an auction. It could get you black-

balled from buying in galleries. Galleries like to sell to people they can trust to hold on to and appreciate the art, and not purely for the purposes of making a quick return.

Subscribe to an art database like Artnet to keep track of the prices of your favorite artists. These databases cull thousands of auctions around the world and sort them into a user-friendly format that is searchable using many different criteria. It is an invaluable tool for keeping track of the art market.

Buy art with a proven secondary market. Choosing artists who have had their works successfully sold at auctions might make it easier later when you want to sell the art. Buying up-and-coming artists is more of a gamble because you do not know if they will have a future. If you take this route, just be prepared to hold the art for quite a while with the possibility that you will still not get big returns at the end of the day.

Buying is easy but selling is hard. When the time comes to sell a piece from your collection, you can first try auction houses. But don't go to every auction house in town to try to get the best deal. Limit it to one or two.

If a work has been "shopped" around too much, it could already be doomed before it even goes onto the auction block because there is no element of a discovery, as everyone has already seen it. Unlike the buyer's commission, which is universal, the vendor's commission is negotiable at most auction houses.

You can also return to the gallery where you bought the work, and it might be willing to take it back on consignment or offer a swap as part of an overall relationship with you.

It is important to understand the risks involved with investing in art. Besides the potential of financial rewards, the process itself can be enjoyable as you discover the rich background of an artwork or an artist.

Buying an artwork that "speaks" to you and provides you with immense enjoyment as you gaze upon it for years to come is possibly the best return on your investment.

■ The writer is art advisory specialist, Citi Private Bank



Masazo Nonaka of Japan, aged 112, receiving a certificate for the Guinness World Records' oldest male person living title on April 10. According to WHO, Singapore is second in the world in terms of healthy life expectancy at 73.9 years. Japan is top at 74.9 years. PHOTO: AFP

How wealthy S'poreans are preparing to live to 100

By Hartmut Issel

SINGAPORE'S millionaires need to re-think their long-term financial plans as they expect to live far beyond average life expectancies. It seems that the link between wealth and health has never been stronger.

A recent survey by UBS Investor Watch found that the majority of affluent Singaporeans believed that they could live to a 100. This compares to Singapore's average life expectancy of 83.1 years, the third-highest behind Switzerland and Japan, according to statistics from the World Health Organization (WHO).

While this sounds like good news, the extra years are raising concerns about costs, particularly spending on healthcare. This is forcing many wealthy individuals to change their assumptions about their lifestyles, spending patterns, and long-term investment and legacy plans.

Our survey of nearly 5,000 millionaires across 10 markets showed that the outlook for longevity varies by country, region and wealth level. In Singapore, 415 millionaires participated in the survey.

Almost half of Singapore's wealthy believed they would live to 100, compared to 30 per cent in the US. The wealthier an individual, the higher the expectation of living to 100.

We also discovered that high net worth individuals (HNWIs) prioritised living well over having money, and are prepared to sacrifice wealth for better health. While a large majority of those we surveyed thought they were in good health today, around three quarters were worried about

their health deteriorating in the next decade.

As such, it was no surprise that healthcare costs ranks as a key concern amongst millionaires around the globe. This same trend is present in Singapore, where two-thirds of the millionaires are worried about rising medical costs.

In Singapore, a vast majority of millionaires (92 per cent) believed that investing in their health was more important than growing their wealth, similar to their counterparts in Hong Kong and Taiwan. As a result, wealthy Singaporeans plan to allocate 30 per cent of their wealth in retirement to healthcare costs. The average wealthy Singaporean is even prepared to sacrifice around a third of his wealth if it can guarantee another 10 years of healthy life.

That said, they appear to be doing a good job of living well. According to WHO, Singapore is second in the world in terms of healthy life expectancy – or the number of years people live in full health – at 73.9 years. This was only behind Japan at 74.9 years.

Many of these millionaires also believed that work was essential for their well-being. Some 85 per cent of Singapore millionaires believed being engaged in work was beneficial for their health, while 68 per cent were working beyond the traditional retirement age, or planned to do so.

But many also thought that working too much could backfire, and be detrimental to their health. In this regard, more Asian investors are trying to strike a better work-life balance by taking weekends off, respecting holiday time, and turning off phones and e-mail more often.

Interestingly, many wealthy Singaporeans are keeping healthy not just for their own benefit. Some 87 per

cent of the Singaporean millionaires we surveyed said they felt a sense of duty to help less fortunate members of society stay healthy – 65 per cent had invested in an area of health in order to generate a positive social impact, a higher level than in any other market surveyed.

Living to 100 also means reassessing one's investment and retirement plans. Investors who expect to live longer are the most likely to make financial changes.

It is heartening to note that almost 80 per cent of Singaporeans surveyed already had a financial plan in place, and were adjusting their investment portfolios in preparation for a longer lifespan.

We recommend that investors start wealth planning early, and ensure that they have a well-diversified investment portfolio.

In Singapore, some 45 per cent are already planning to adjust their long-term financial plans, while 46 per cent are tweaking their spending patterns. In addition, 41 per cent have or will make more long-term investment decisions, with equities, bonds and real estate seen as strong places to invest long-term.

Living to an advanced age is even impacting the way wealthy investors plan their legacy, as they kick-start this process earlier. Just over half of Singaporeans surveyed planned to give away more while they're alive.

In terms of investments, Singapore's HNWIs unsurprisingly picked healthcare as their top choice for long-term investments. Asset classes such as equities and real estate were also favoured, as was cash, which was picked by 40 per cent of respondents.

The world's wealthy are likely to be the biggest beneficiaries of the trend of longer lifespans. To deal with this new reality, many have to start planning early to ensure that they can maintain the quality of their lifestyles as they age. The good news is, many have already started on this.



■ The writer is managing director, UBS head of Apac Equity and Credit

“Every artist has good days and bad days, and these masters are no exception. There are plenty of bad Picassos on the market. You might think that you’ve found a bargain – a cheap Picasso! But most likely there is a reason it was inexpensive.”

Edie Hu (right)



A closer walk with philanthropy today

New generations of philanthropy use successful business models to address global challenges like poverty, health issues, natural disasters. **BY SERENA SIM**

MANY are aware of the different forms of charity-giving. But sometimes we can't distinguish between charity-giving and philanthropy.

Have you heard of impact investment, venture philanthropy, strategic philanthropy or social enterprises? These are the new generations of philanthropy that have used successful business models to address global challenges like poverty, health issues, natural disasters and ageing.

Charity-giving is usually more spontaneous and reactive to an event, such as raising money for earthquake victims, while philanthropy is purpose-driven, usually by values and passion, and involves a higher degree of commitment.

In a new frontier of philanthropy, there's impact investment, where a philanthropist actively pumps in capital into investment or business to generate income, and the returns are given to charity. Impact investment requires risk-taking, strategy, determination, humility and passion.

There's also venture philanthropy – it emphasises on capacity-building in an organisation and the grants given to non-profit organisations as a form of investment.

With strategic philanthropy, a client's charitable intent is better-planned. He gets to understand the ground issues and can decide how much he wants to engage in the philanthropy causes. By having a goal and a strategy, the client is able to gauge the impact of his philanthropic giving – making it measurable for him for future contributions.

Whatever the form of philanthropy, it usually starts from an individual and expands into the family and possibly a pillar in a corpora-

DBS's lifestyle space at Plaza Singapura features Bettr Barista, a social enterprise supported by the DBS Foundation, at its entrance.
ST FILE PHOTO



tion's mission.

From an individual, it starts with a passion to improve someone's life or create an impact socially.

Within a family, members may set up their family philanthropy mission and vision. Where possible, they involve all the family members, including the young ones, in the philanthropic cause. This keeps the family together and strengthens their bond. It is also one way of establishing family legacy and identifying shared values in the family.

Expanding the philanthropic vision and mission to the corporation is a way of giving back to the community where money was made. It also enhances the company's standing in the community, creating a positive image.

But there are challenges faced by the individual and the family at large. The different upbringing, such as children who received foreign education, and the family dynamics and values

can create tension within the family.

Let's look at the challenges facing philanthropy today – without taking into account the amount of contributions.

Creating awareness of the need for philanthropic effort is limited. There are limited government tax policies to attract donors. There is scepticism of accountability on how funds are distributed. So there is a need to apply innovative approaches to sustainable development – stressing on transparency, accountability and long-lasting outcome.

At a higher level, countries may come to work together and align their interests to encourage more philanthropy. Governments may set policies that encourage philanthropic accountability and improve data collection. Transformation impact can be achieved with strategic analysis, community engagement and emphasis on this shared philanthropic vision and mission. These will encour-

age the society to show more compassion towards the less fortunate.

Time, talent and treasure are means to help realise a person's philanthropic cause. Here are some ways a philanthropist can go about it:

Discussing philanthropy with clients

Most of the time, in an estate-planning discussion, a client would talk about his personal affairs including his life and death. The list of beneficiaries in estate planning usually includes immediate and extended family members, and sometimes close friends and loyal employees.

Estate planners should at this point prompt the client on questions such as his interests and values in life. They can be followed by questions on his charitable beneficiaries and how he spends his time and/or money on them. Ask if the whole family is involved, if his company spends

time and money on corporate social responsibility.

Do not focus too much on technical issues like tax efficiency or tax deductions. Instead, work towards a holistic approach on the client's philanthropic goals. Assisting the client to build his philanthropy mission and vision for himself and his family should be top priority.

Creating a bigger social impact with DBS Foundation

As a corporate foundation in Asia solely dedicated to championing social entrepreneurship, DBS Foundation contributes towards building a more inclusive society in the region so that those at society's margins can enjoy productive and rewarding lives.

DBS Foundation works with social enterprises and entrepreneurs in Singapore, India, Indonesia, China, Taiwan and Hong Kong.

DBS Foundation's work aims to:

- Build awareness and advocacy for social enterprises, and support programmes that help spark ideas for social good.

- Nurture and strengthen innovative social enterprises through best-in-class incubation programmes with its partner network.

- Develop high-potential social enterprises and enable their success through mentoring, funding and support of skilled volunteers.

At DBS Private Bank, we connect our high-net-worth individual clients to the social enterprises supported by the foundation. The foundation partners social enterprise developers to facilitate knowledge-sharing and to build up the capacity of early-stage social enterprises to achieve social and commercial viability.

These partners also provide incubation, boot camps, workshops and some financial support to social enterprises.

Some of our grant partners include NUS Enterprise in Singapore, Village Capital and Tata Institute of Social Sciences in India, SE Insights in Taiwan, YouChange Foundation in China, and Hong Kong Council of Social Service.

DBS Foundation continues to support social enterprises with its annual Social Enterprise Grant Programme. This programme enables social enterprises to develop a prototype of their ideas, improve existing processes or add critical capabilities to achieve sustainability, or to scale up their existing businesses for greater social impact.

Doing more for society

Private bank clients increasingly have an interest in engaged and impactful giving programmes, especially in key areas of strategic philanthropy.

We have put in place quarterly sessions to share with our clients ways they can help to make a difference and to connect them to individuals or speakers from the charitable organisations that they wish to support.

In 2017, our focus was on education, ageing, health, and alleviation of poverty. This year, we continue our strong momentum with our clients as they see DBS as more than just a bank, but as an impactful organisation that helps those who help others.



■ The writer is senior director of wealth planning, DBS Private Bank

Keeping it in the family

A successful family business owner ensures smooth and effective transition from one generation to another. **BY LIM PING PING**

IN September a few years ago, my LGT colleagues and I spent a week at Liechtenstein Academy in Switzerland, a training institute owned by Princely House of Liechtenstein, where we rowed in the lake in the morning, walk in the woods in the late afternoon, and etch or draw during the rest of the day.

We also listened to and learnt from good-humoured scientists and experts who explained why we should not multi-task, and how we can be more self-aware and self-caring.

Throughout the week, we were also forbidden from answering work calls and participating in work meetings. On our return, invigorated and encouraged by what I had learnt, I looked again at the Latin words on my course folder and had renewed appreciation for the programme: A healthy individual contributes to a healthy organisation.

On recounting this experience to an audience of Asian family business owners, the discussion turned to the question of how family values can nourish the businesses they own, and how to have these values guide businesses when family members are no longer in active management roles but can exercise their influence through ownership.

When families talk about their goal of legacy building, this sometimes becomes a shorthand for philanthropy as a legacy.

Entrepreneurial families, families with an influential and affluent background, appreciate that with wealth comes responsibility. A good owner is committed not just to his family and his business but also to his employees.

One of the chief responsibilities of a good owner is ensuring that transitions between generations are smooth and effective. Most times, this means a family and business succession plan, other times this means getting a family business ready for sale to a better owner.

Those of us who work with families on their succession plan are aware that the loftier goals of being a good owner may need to be grounded with some help on housekeeping – many busy founders of businesses may have established wealth holding structures that may have served families well in the early years but which have failed to grow in step with the family's evolution. A review of these

usually provides the springboard to identify governance structures that families may consider slowly incorporating into their existing arrangements.

Going beyond wills and family trusts, families that own businesses may already be considering more formal family governance structures – such as family office, councils and assemblies – to help their families manage their decision-making in relation to their family issues and wealth, and the businesses owned by them.

The involvement of a well-educated, well-trained 'next generation' in such family-succession planning can help lift the burden from the shoulders of the founding generation already challenged by the jargons in such discussions.

Ultimately, what families are trying



“One of the chief responsibilities of a good owner is ensuring that transitions between generations are smooth and effective. Most times, this means a family and business succession plan, other times this means getting a family business ready for sale to a better owner.”

Lim Ping Ping (above)

ing to determine is if an arrangement is the right one for them.

For many, it helps to talk to other business-owning families that have successfully used and adapted similar governance structures, and get an understanding of how they are put into practice.

The Princely Family of Liechtenstein is well-known for having transferred the family wealth over 30 generations. As business owners with independent wealth and who contribute to their community rather than rely on taxpayer funding, their insight on what works for their family can be a helpful reference for others.

Prince Philipp of Liechtenstein, chairman of LGT, and Prince Max of Liechtenstein, LGT's CEO, bring in perspectives from two generations to answer questions such as how their family use the House Law to regulate their respective rights as family owners, how they utilise their Family Council, and how they inject sustainability and social responsibility into their family business.

Like the Liechtensteins, most family owners who have successfully transferred wealth through the generations use a combination of family governance structures to manage family issues and decision-making through the orderly and timely provision of curated information on family wealth to family members so that conflicts get nipped in the bud, especially during a crisis. Families are often surprised to learn that governance frameworks undergo renewals and that that responsibility falls on the new generation.

How can a family gain the confidence to let the next generation get it right? How the next generation can best learn the values and skills required to be successful leaders and owners of family businesses is often posed at family exchanges with the Liechtensteins. By participating in such dedicated forums, families can exchange experience with one another and receive knowledge on topics like values, communication, responsibility, next-generation development, and how to deal with wealth.

Author Leo Tolstoy said the most powerful warriors are time and patience. In today's busy world, the true commitment of a family that cares for its members, their business and their employees, is the time devoted to learning and the patience to start over 'when at first you don't succeed'.

■ The writer is regional head of wealth planning, LGT Private Banking Asia

A relook at alternative investments

By Joe Caceres

WITH the S&P 500 and other global indices reaching record highs at the start of 2018, many thought we'd see a repeat of the 2017 bull run. But global markets have pulled back substantially of late, and investors now look to manage risk in this more volatile period.

Investors are torn: Do I lock in earned profits now or hold out for future gains?

You can understand the conundrum. After all, if they've been listening to the morning talk shows, this half-decade bull run is coming to a close, and yet markets have continued to grind ever higher.

What if there were a way to continue in much of this upside while partially protecting your downside?

Alternative investments are a possibility but a few misconceptions need to be picked off and addressed first.

Investors have to bear in mind that alternative investments may not be for everyone, as many of them are available only to experienced and financially sophisticated investors.

First misconception is that the purpose of alternative investments is to seek outsized returns by taking excessive risk. On the contrary, effective alternative investments can reduce risk in portfolios and in turn help to drive higher, smoother and less volatile returns over time.

The second misconception relates to the sub-optimal returns generated by hedge funds in recent years. While true, hedge funds tend to perform best when market volatility is increasing and asset correlations are low. For many of the bull market's recent years, we saw both low volatility and high correlations as investors sought outsized returns across all asset classes. The market we have seen so far in 2018 is showing a tendency towards higher volatility and lower correlation.

One hedge fund investment strategy that can be beneficial in today's markets is equity long/short. An equity long/short hedge fund will simultaneously hold long positions that will increase in value if markets rise, and short positions that will increase in value if markets fall. One key metric to look for in selecting such a fund is their track record of upside and downside participation.

A good manager might have a track record of achieving 80 per cent of the broader market's gains as markets rise, but in bad times will incur only 40 per cent of the losses. Many investors feel it is sensible to give up a mere 20 per cent of participation on the upside to protect their portfolio from up to 60 per cent of the possible downside should markets fall.

The third misconception is that hedge funds are the only type of alternative investment that can add value and reduce portfolio risk in today's more volatile markets.

For investors with a long-time horizon, private equity can also enhance returns and lower volatility. Top-tier private equity managers, for example, have shown consistent outperformance over listed equity markets. We call this the "illiquidity premium" generated by private equity over liquid stock markets.

Private equity's additional benefit is its relatively lower short-term value fluctuations compared to assets like stocks, therefore helping to lower volatility in portfolios. There is no free lunch in investing, and the trade-off for this enhanced return and lower volatility is long lock-up periods of typically 10 years, although that can change depending on the opportunity.

While 10 years may sound daunting, many investors have already made illiquid investments when they bought a home or an investment property, and these can be held often for decades. Just like property or any other illiquid investments, we recommend that investments in private equity be sized correctly such that an investor's near-term life needs can be met from their liquid portfolio without having to sell illiquid assets.

The benefits of less liquid investments are also available in credit markets, where private credit can offer a good alternative to traditional bonds.

Unlike traditional bond markets which are easily traded by individual investors, private credit markets are not directly accessible to individuals due to their complex institutional nature. As such, investors can access private credit funds much like private equity funds, where a specialist manager makes the underlying investments. These managers invest in private loans that are less liquid and typically pay a higher yield than public bonds, and are also often better protected in the event of default, given their superior position in the capital stack and better recourse to collateral.

Additionally, these private credit instruments are usually entirely floating rate – investors' concerns surrounding rising interest rates are fully mitigated by this investment, since the underlying loans will simply reset upwards in the event of rising rates. In contrast, most public bonds are fixed rate instruments, meaning they will fall in value if rates rise.

The key to investing in any alternative investment is careful selection of the manager and the fund. There is a wide dispersion of performance between the top and bottom quartile of alternative managers.

Before making any investments, you should ensure that the manager has been carefully vetted and has passed a rigorous due diligence process. We recommend that private investors use a reputable wealth advisor or other trusted professionals with strong capability in manager selection in order to reduce risk and increase the chance of investing in the best-performing managers.

In light of the current market environment, there is increased interest by investors in alternative investments as an opportunity to diversify and risk manage portfolios.

With the right guidance from your trusted financial advisor, the alternative investment space might be something worth considering when used appropriately and within an overall portfolio-based approach.



■ The writer is head of managed solutions and alternative investments, HSBC Private Banking, South-east Asia



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Steven Lo
Region Head - Asia Pacific
Citi Private Bank

The Global Investment Lab

A unique team dedicated to helping our clients understand what really matters in their portfolios. Across Singapore, Hong Kong, New York, London, Geneva and Dubai, our think tank the Investment Lab, applies global insights when providing strategies customized to clients’ needs.

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Our quantitative and qualitative analysis supplies the framework for developing client portfolios and implementation possibilities.

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Institutional quality advice across assets, liabilities and business interests incorporating our clients’ investment goals, risk appetite, knowledge and experience.

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We approach clients’ wealth holistically and deconstruct portfolios as an accumulation of risk exposures using sophisticated, proprietary modeling techniques.

Opportunities vs Risks

We seek to uncover opportunities and risk exposures clients may have been unaware of and illustrate how portfolios might perform in different economic and market conditions.

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Having identified the risks and opportunities, we apply innovative problem-solving skills to create actionable insights and a wholly personalized implementation strategy.

Intelligent Delivery of Enterprise Analytics (IDEA)

Used by over 1,500 Private Bank employees worldwide, our proprietary analytics platform IDEA integrates client portfolio data with thought leadership.

This allows our bankers to drill down through portfolios and discover insights that can be overlooked by other platforms.

Timely, actionable intelligence is provided through the platform, allowing bankers to zero in on clients when special situations occur to help them mitigate and rebalance risks. For example, specific currency and geographical exposures can be detected, as well as more nuanced categories like Chinese real estate developers holding US-dollar debt.

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Entrepreneurs are driven by their vision of the future.



Mark Yong
CEO, Garuda Robotics

It takes an entrepreneurial mindset to drive progress.
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DBS Private Bank - Moving forward with Singapore, Innovating for the digital age.

Through fifty years of energetic growth, the bank has kept pace with its clients' changing needs, meeting them through both digital innovation and deepening relationships.

You cannot talk about Singapore without talking about DBS, reckons Lawrence Lua, Deputy Head of DBS Private Bank.

Indeed, the bank's name in itself – Development Bank of Singapore – reflects how the lender grew up with Singapore through the days of industrialisation, progressing from a trading port to a cosmopolitan service hub that is a global financial centre respected around the world.

As the bank celebrates its 50th anniversary this year, this stalwart of Singapore is determined to build a brand that goes beyond the bottom line, says Mr Lua, noting that clients are keen to build their wealth through trusted financial advisers who understand their needs at various stages of their lives.

Focussing on stability and solutions

In the post-crisis period, DBS Private Bank sees itself in a sweet spot as the bank remains valued as a trusted institution with a robust credit rating, and is still seen as a safe player. Mr Lua says the bank bears in mind its fiduciary duty as a large and systemically important financial institution, as well as its responsibility to its clients. It focusses on solutions to their clients, not on product-pushing.

"After the 2008 global financial crisis, clients asked one important question: 'Are you safe?' We're here for the long haul. We're not product-pushing, we're solutions-based. We want to put our clients first."

For Mr Lua, being focussed on solutions means understanding that a client who had been taking on risky positions ten years ago is likely to have tempered his risk appetite today with age. As a one-stop shop, DBS Private Bank provides solutions that run the whole gamut from capital-raising to succession planning, to serve clients who are often also entrepreneurs with business financing needs.

Investing with a higher purpose

Mr Lua observes that more private banking clients are engaging their children in investment decisions. With greater social consciousness felt among the younger generation, clients are turning away investments that have become more taboo, ranging from tobacco to weapon stocks.

There is also rising interest from clients who want investments geared towards impact investing, or investments that have a triple bottom-line effect. While Europe is much more advanced in this area, the growing interest in Asia means that DBS has begun providing custody services for investments structured by clients that have a social-impact focus.

The bank last year launched the Women's Livelihood Bond – the world's first social sustainability bond to be listed on a stock exchange – which raised some US\$8 million from clients and investors to help more than 385,000 disadvantaged women living in Philippines, Vietnam and Cambodia. Part of this goes towards providing micro-financing, allowing these women to carve out an independent source of income for themselves.

The bank has also started a sustainability council to ensure that the bank is responsible as a financial institution and a corporate citizen, cares for the environment and is an employer of choice.

Its DBS Foundation issues grants to worthy causes in Singapore and Asia, while the bank commits to mentoring 50 social enterprises. These causes include helping ex-offenders integrate back into society, and ensuring that disadvantaged women can stand on their own two feet to support themselves.

Digital innovations, deeper relationships

A big part of raising the bank's game has come from re-tooling its infrastructure and platform, and developing a very strong digital agenda, with customers today taking well to digital tools to do simple trades. This frees up private bankers to engage their clients on more serious discussions on wealth planning and allocation. Mr Lua says that even as automation and machine learning come to the fore in private banking, private bankers are unlikely to become obsolete.

"I tell my bankers: it will not be another machine that will replace you. It will be another better banker," says Mr Lua. "So machines are not enough. Like all human beings, private banking clients still need good human engagement and interaction."

Mr Lua adds that through the years in private banking, the rules of the game have changed. Regulations have been tightened, and while clients are more receptive to solutions with a higher level of sophistication, they have also become more discerning. "There is no longer the belief that a bank that has been around for 100 years would still be around in the future," he says.

But DBS Private Bank is primed to grow for years to come, and to stick around.

"DBS and Singapore have the same story. We grow together," Mr Lua says. "Our DNA is very much about helping to grow Singapore. There is a sense of purpose, and a sense of pride."

“(Digital innovation is) not enough ... private banking clients still need good human engagement and interaction.”

Lawrence Lua,
Deputy Head,
DBS Private Bank



Start a conversation with us at +65 6227 7188
or visit www.dbs.com/privatebank

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World's Best Private Bank for Innovation 2016, The Banker
Best Private Bank in Asia-Pacific 2017, Global Finance



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Wealth Management



Deutsche Bank Wealth Management – creating a positive impact

Deutsche Bank Wealth Management is strengthening its entire ecosystem in Asia by investing in world-class talent and digital technology.

Led by Lok Yim, Head of Deutsche Bank Wealth Management, Asia Pacific, and Chief Country Officer for Hong Kong, the new hires span across functions and levels including client coverage, product specialists, Know Your Client, technology and service support across Hong Kong, Singapore and Dubai. The bank has also introduced new digital tools in Asia such as Deutsche Wealth Online to enhance clients' digital banking experience further and internal apps to empower relationship managers so they can engage more with their clients.

Using an open-architecture model, which connects clients to a broad suite of investment tools and its full range of experts, the bank is able to innovate with tailored solutions to meet specific needs.

Many clients recognize the value of this and

the one-bank approach which connects them to a leading capital markets institution. As a large global bank with an investment banking franchise, Deutsche Bank Wealth Management is able to provide its high net worth clients with institutional services and sophisticated opportunities around the globe.

From its origins in Germany to its place as the leading European bank at the heart of Europe's largest economy, Deutsche Bank Wealth Management remains focused on protecting and growing the wealth of its clients and their families. The bank has never been better positioned to support its Asian clients using its global network of experts and deep local heritage in around 80 cities. Deutsche Bank has roots in Asia stretching back to 1872 and celebrated its 45th anniversary in Singapore last year. It remains strongly committed to Asia and creating a positive impact for its clients and the community.



Lok Yim
Head of Deutsche Bank
Wealth Management
Asia Pacific

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Readying Next Gen to take the lead

HSBC Private Banking helps families navigate the intricacies of succession planning



From Left: **Michelle Lau**, Managing Director, Head of Private Wealth Solutions, Southeast Asia, HSBC Private Banking; **Philip Kunz**, Head of Global Private Banking, Southeast Asia, HSBC Private Banking

HSBC Private Banking Head in Southeast Asia, Mr Philip Kunz, sees the private bank like glue binding together different parts of the banking giant.

"In HBSC, I feel we have a strong trifecta. Our longevity in Asia, means we have the depth in understanding cultural norms among families in the region, we have the breadth of solutions to support them and their businesses, and we have the global reach to understand wealth best-practice from around the world," explains Mr Kunz who re-joined in November last year.

Team effort behind every family

The bank's teamwork approach is important when it comes to embracing families, understanding their intricacies, and finding solutions for them.

"There is very seldom one solution that works for every client. Each family has their own dynamics, especially when adding in a family business to the mix," explains Mr Kunz.

In safeguarding family wealth as it passes between generations, clients are provided with a panel of experts. A Relationship Manager oversees all of their wealth management needs and a dedicated Investment Counsellor, along with product specialists, provide tailored investment advisory support.

When it comes to succession planning, Wealth Planners broker difficult but often necessary conversations on wealth transfer and help to formalise these plans, while Trust Relationship Managers execute and administer trusts.

Binding families closer together

Through interacting with different generations of families, the views and opinions that come forth can be very diverse.

However, in the Asian culture - where the younger generation often defers to the older one out of respect - such differing views might not be expressed in the presence of older family members.

An area of strength for the business is the knowledge gained over decades in helping families tackle the really difficult conversations.

"We will often be the sounding board to different family members, receiving their perspectives on the family's wealth direction in a way that may not be shared freely with other family members. We understand this a unique and privileged role to hold and we treat it with respect. It also means we can help mediate between the first and the second generation," says Ms Michelle Lau, Head of Private Wealth Solutions, Southeast Asia, HSBC Private Banking.

"One way to broker it is by establishing a family constitution. These are essentially charters that dictate how family wealth or business will be managed over the long term, and is akin to the DNA of the family. It's about how we embed the software into the hardware," she explains. "Discussions on preserving a loved one's legacy

can be very powerful tools for bringing a family together."

Philanthropy serves as another example. The younger generation often has a different approach from the older generation, with many choosing to eschew the usual route of simply donating money to a charity in favour of setting up a social enterprise.

"Given that families are ever-changing, succession plans are not something that can be ironed out and then locked in the drawer for good," continues Ms Lau. "Somebody takes over the business, new grandkids come along. You will need to review and look at that."

Readying Next Gen leaders

"Preparing the next generation of family business leaders takes time and preparation. Increasingly if 'Next Gen' want to lead, they have to take ownership and prove themselves. It's also a role of substantial responsibility to take the helm as a family custodian. There are expectations to uphold like family values and traditions," says Ms Lau.

In April, HSBC Private Banking's global flagship, Next Generation Programme, now in its 15th year was hosted in Singapore. Invited to the three day event were next generation participants from ultra high net worth families across the world. The programme covered a range of topics from family business and succession, philanthropic and sustainability best practices to investment planning.

While you could assume that 'Next Generation' simply means second generation, for some of the family members in attendance they were third or even fourth generation clients readying to take the lead. It also gave them an opportunity to network, explore their future

roles as family and/or community leader, and share their own personal experiences with each other.

Commitment to Singapore

Having one of the oldest and most established trust administration businesses in Asia puts HSBC Private Banking in good stead to support the growing wealth and inter-generational needs of families in Singapore and across Southeast Asia

"We've been in the trust and estate planning business in Singapore for more than 70 years," says Ms Lau. "We've been administering family plans, some now for a few generations, and had gone through that transition with them."

Agreeing, Mr Kunz adds: "What we try to do is facilitate or moderate such conversations. By putting the different voices in the same room, clients often discover there is more common ground in their views than differences. This is the role we play extremely well, to be the facilitator and help them find the right solutions."

Looking ahead, the banking veteran is optimistic about the outlook for HSBC Private Banking, and the wider HSBC group, given growing wealth in Southeast Asia as well as increasing activity as China executes its Belt and Road strategy.

As many more businesses come to Singapore and the region, the pool of wealthy individuals is also expanding. "I don't think there's another financial institution globally that is better positioned than us to capture all of that and bring the benefits to our clients. Ultimately, 'client first' is our focus and everything we do should delight them on a daily basis."

We will often be the sounding board to different family members, receiving their perspectives on the family's wealth direction in a way that may not be shared freely with other family members. We understand this a unique and privileged role to hold and we treat it with respect. It also means we can help mediate between the first and the second generation.

Michelle Lau
Managing Director, Head of Private Wealth Solutions, Southeast Asia, HSBC Private Banking

In HBSC, I feel we have a strong trifecta. Our longevity in Asia, means we have the depth in understanding cultural norms among families in the region, we have the breadth of solutions to support them and their businesses, and we have the global reach to understand wealth best-practice from around the world.

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



With the entrepreneurial Princely Family of Liechtenstein as the sole owner, LGT has grown to be one of the largest privately owned and managed private banking and asset management groups in the world. Its culture is firmly steeped in the values of the Princely Family, which has a history of over 900 years, and thus enjoys the competitive advantage of being able to think and act for the long term.

Being part of a very long tradition, with deeply-held values, gives LGT a strong and inherent sense of preserving and growing assets in a sustainable manner, and passing them on to the next generation.

We speak to H.S.H. Prince Philipp von und zu Liechtenstein, Chairman LGT, and H.S.H. Prince Max von und zu Liechtenstein, CEO LGT, to find out how this special family-run private bank, thinks about investments for the long term.

The Princely Family of Liechtenstein has entrusted the management of a large part of its assets to LGT. What are the primary financial objectives for these assets?

H.S.H. Prince Philipp: As a family we ask ourselves, what we want to leave our children and grandchildren as a legacy one day? Here I mean not just material values, but also ideals. Because we think in terms of generations, we automatically think and act for the long term – and this is also the case at LGT. In contrast, a listed company must render an account of its activities to the financial markets every quarter, and continually report improvements in performance. A new CEO must prove to his investors as quickly as possible that he is providing the company with positive impulses. In such a situation, there is a strong temptation to maximize short-term profits, while at the same time exposing the company to higher risks and consistently changing strategy. Experience shows that this pattern of behavior is frequently followed at the cost of sustainable development. Many of our clients are themselves entrepreneurs as well. Accordingly, we can talk to them as entrepreneur to entrepreneur, and from family to family. This is rare in modern private banking.

H.S.H. Prince Max: The goals are very similar to those of other families. Ultimately, the aim is to preserve and grow the capital. Of the three traditional investment objectives, namely returns, security and liquidity, we focus primarily on the first two. Because the investment horizon is very long, the liquidity aspect is a secondary priority. This is one of the reasons we are able to make investments in less liquid but attractive asset classes such as private equity.

H.S.H. Prince Philipp: The basic principle is: we commit our own money first before we invest our clients' money. The resulting alignment of interests between clients and owners probably distinguishes us from other similar institutions. Another important

LGT: Values Worth Sharing



H.S.H. Prince Philipp von und zu Liechtenstein,
Chairman of LGT Group (left),
H.S.H. Prince Max von und zu Liechtenstein,
CEO of LGT Group (right)

factor is that we follow clearly defined investment principles: we are staunch believers in active investing, and we diversify consistently, globally, and across all asset classes. Our goal is to mandate the leading investment managers in each asset class, irrespective of whether they work at LGT or for another company. And finally, we believe in co-investment, and only entrust money to investment managers if they have a substantial amount of their own capital invested in their strategy.

How important is co-investment for LGT and for its clients?

H.S.H. Prince Philipp: Co-investment of this kind is quite rare in the world of finance. The principle is very important for our clients. They have the option of investing in the same investment strategy as our family. Our internal investment managers also invest their own money in the portfolios they manage. This results in highly aligned interests between our clients, our employees and the owners of LGT.

H.S.H. Prince Max: We offer our clients the same as what we demand of our external investment managers. That is not only consistent, but also significant for our corporate culture. The concept of co-investment sends an important signal, both externally, but also within the organisation. Our clients appreciate this opportunity to co-invest, which is why it's surprising that, to the best of my knowledge, we're the only private bank to put such a strong emphasis on this important approach.

Looking back, the acquisition of ABN AMRO's private banking business in Asia and the Middle East and London-based Vestra Wealth within the past few years were two important milestones. What were the key considerations behind these decisions?

H.S.H. Prince Max: The ABN AMRO transaction of 18 billion US dollars in assets significantly strengthened

our position in the attractive Asia and Middle East growth markets and laid an excellent foundation for further profitable growth in these regions. For LGT Vestra, it was about closing an important gap in the geographical coverage of our private banking business. Being in Liechtenstein, Switzerland, Austria, Hong Kong, Singapore, Dubai and London, we now have strong private banking platforms in the most important financial centers in Europe, Asia and the Middle East.

H.S.H. Prince Philipp: What was also very important is the fact that both of these entities' corporate culture were a perfect fit with LGT. In particular, the ABN AMRO transaction was very positively received both by clients and employees, and the integration process, which was completed in record time, went extremely well.

The environment has changed substantially for the banking sector since the 2008 financial crisis. How do you plan to carry the LGT success story forward?

H.S.H. Prince Max: The environment has become more complex, and the challenges have increased as a result. But I think this is actually an advantage for LGT, because as an organization, we have consistently focused on investment management for private and institutional clients. We believe that our long-term, risk-conscious and ambitious mindset, as well as the clear focus on investment expertise and client service, will enable us to successfully further develop our company in the future.

H.S.H. Prince Philipp: An important factor for success is also our ownership structure. As a family business, we can take a long-term approach and don't have to be constantly mindful of how the financial markets interpret our quarterly results. As the owner, we have a very different responsibility. We can't just move on to the next company if things aren't going smoothly or if something goes wrong.



lgt.com/values

VALUES WORTH SHARING

"Our investment competence is based on 30 generations of experience."

H.S.H. Prince Philipp von und zu Liechtenstein, LGT Chairman since 1990



Josef Höger, detail from "View from garden towards the ruins and Liechtenstein Castle at Mödling," 1844
© LIECHTENSTEIN. The Princely Collections, Vaduz-Vienna

Standard Chartered Private Bank takes a holistic view on clients' needs

Standard Chartered Private Bank is geared up to tackle entrepreneur's needs with its global footprint and wide financing and investment solutions. To find out more, we speak to Srinivas Siripurapu, Regional Head of Private Banking, ASEAN and South Asia and Global Head of Global South Asia Community, and Sumeet Bhambri, Regional Head of Wealth Management, ASEAN and South Asia.



“One of our most compelling advantages is our ability to offer more objective investment advice based on a process developed by our in-house Global Investment Committee, a diverse group of market experts.”

Srinivas Siripurapu, Regional Head of Private Banking, ASEAN and South Asia and Global Head of Global South Asia Community

Standard Chartered is reaching out to clients with a deep understanding of their investment needs. Tell us more about this approach.

Srinivas: We help our clients meet their investment goals through a team of senior relationship managers who have experience across multiple market cycles, and they are supported by investment strategists and product specialists in each market.

Our “open architecture” model means we are able to access multiple third-party sources of market insights and our products are sourced externally, with no bias towards our own proprietary products. This allows us to put our clients’ needs at the forefront of our business.

One of our most compelling advantages is our ability to offer more objective investment advice based on a process developed by our in-house Global Investment Committee (GIC), a diverse group of market experts. The success of our process is based on the diversity of the sources of market information that we curate, the diversity of perspectives within our GIC team, and our decision-making process for our investment themes for the weeks and months ahead.

We have been in Asia, Africa and the Middle East for over 150 years so we have on-the-ground knowledge of the markets where our clients live and do business, giving us a deep understanding of their needs.

Standard Chartered offers a universal range of banking services. How does this benefit your clients?

Srinivas: Many of our clients are entrepreneurs based in Asia, Africa and the Middle East and their personal

and business banking needs are closely linked. For their personal wealth management, our Private Bank is accessible in six global financial centres, with an experienced relationship management team that can offer them investment avenues to many of the world’s fastest-growing markets. We can also bank their business needs through our Commercial Banking and Corporate & Institutional Banking segments in more than 26 markets, with solutions tailored to where they are in their growth journey.

Take for example an entrepreneur of Indian origin who lives in Singapore: by having a private banking relationship with us in multiple booking centers, our bankers in India can help the individual build a global investment portfolio managed by our experts, and deliver relevant and timely advice to navigate the markets. Since we have an onshore presence in India, our bankers in India can also help them invest in their home country, by providing property mortgages for instance. For their business needs, they can take advantage of the connectivity we provide across Asia, Africa and the Middle East as they expand their operations; they can use Straight2Bank, our award-winning cash management platform to manage payments, access our deep expertise in key global trade corridors and utilise our financing solutions.

We have a presence in 70 per cent of the countries along the Belt and Road corridors. As the initiative continues to develop, we expect strong opportunities for businesses to grow and exciting new avenues for personal investments, and we have our teams on the ground to help our clients capture these opportunities.



“We are investing to give our relationship managers more innovative digital tools and enhancing our infrastructure to continuously raise the bar on our client experience.”

Sumeet Bhambri, Regional Head of Wealth Management, ASEAN and South Asia

How is the bank using digital solutions to meet clients' needs?

Sumeet: Our clients expect their bank to deliver a more convenient, personalised service and so we are continuously enhancing our digital experience. While clients enjoy the convenience of digital channels, we see that they still want personal advice from an expert when making complex investment decisions. For us, digital is a complementary, rather than disruptive force. We are investing to give our relationship managers more innovative digital tools and enhancing our infrastructure to continuously raise the bar on our client experience. Last year we launched ADVICE 2.0, an award-winning digital advisory tool built in partnership with Thomson Reuters. It integrates our house views and investment recommendations with the Thomson Reuters’ platform, allowing our relationship managers to give clients investment proposals much faster.

We are also enhancing our trading platforms across fixed income and equities with industry-leading capabilities such as the ability to price in real-time, significantly reducing our turnaround times to execute on client requests.

Given the current market volatility amid fears of trade wars, what is the bank's view on the general market outlook?

Sumeet: We see the recent US tariff decisions as an attempt to increase the country’s bargaining position and accelerate bilateral negotiations, rather than to initiate a trade war. Thus, we hold the view that there would be limited economic impact from the ongoing global trade friction and remain constructive on global equity markets, amid healthy economic growth momentum. However, since near-term volatility could linger given fragile sentiment, investors should remain on watch for signs of a significant escalation.

Despite short-term concerns amid trade tensions, Asia ex-Japan remains our preferred region for equities, underpinned by steady earnings growth, relatively undemanding valuations and modest USD weakness. Domestic and service-oriented sectors may also be relative winners if current tensions persist.

In terms of bonds, we see the opportunity remain in Emerging Market government bonds, both USD and local currency bonds. Both offer a significant yield pick up over Developed Market government bonds. While EM bonds are generally more volatile we believe positive fundamentals and a weaker USD should limit this volatility going forward.

Against a weakened USD in April – a seasonally soft period for the USD – we expect the EUR and CNY to be among the biggest beneficiaries.

While gold registered modest gains amid the recent rise in trade tensions, it has remained well within a USD 1,300-1,370 range. We retain our range-bound long-term view as a weaker USD offers some support, but rising (inflation-adjusted) bond yield impose a drag.

Opportune time to be a sustainable investor in Asia

Investors no longer need to compromise their values to generate financial returns. In fact, investing with an eye on positive outcomes could even improve portfolio performance. This win-win is called sustainable investing, and it's starting to take off in Asia.

"We're starting to see more of our clients in Asia who want to invest sustainably. Over the past three years alone, regional client investments into sustainable investing have grown seven-fold – a testament to the increasing need for private investors to align portfolios with their values and passions. At UBS, we believe that investments that support a sustainable future will likely benefit financially over the long term. This means that investors don't need to compromise returns for social and environmental impact. The launch of our first Sustainable Investing portfolios helps meet our growing client needs for principled returns, alongside our company-wide commitment to mobilizing wealth for the United Nation's Sustainable Development Goals."

August Hatecke, Head of UBS Global Wealth Management Southeast Asia



There are many ways to invest sustainably. One way is through sustainable investing portfolios like UBS's that provide 100% exposure to assets that incorporate environmental, social and governance (ESG) factors, such as green bonds, ESG-thematic equities and shareholder engagement strategies, which seek to improve company behavior through direct shareholder dialogue. Each exposure aims to deploy capital to benefit people and/or the planet and to deliver market-rate returns – an often symbiotic relationship.

"UBS has joined with other financial firms and multilateral development banks to find sustainability solutions. Through cooperation with our partners including the World Bank, we have built the first 100% cross-asset sustainable investment offering for private clients, targeting market rates of risk-adjusted return as well as positive social and environmental outcomes," says Simon Smiles, Chief Investment Officer, Ultra High Net Worth at UBS Global Wealth Management. "Entrepreneurs make up the majority of our Asian clients, and they are becoming more focused on sustainability because they believe doing so improves performance, helps to de-risk their businesses, and meets mounting consumer demand for sustainable solutions. And now they can integrate sustainability into their investment portfolios."

A review of over 2,000 academic studies on factors related to sustainable investing concludes that integrating sustainable factors either improves financial returns or causes no detriment to them, across all asset classes. Financial analysis backs this theory: the average return of the MSCI KLD 400 Social Index, which tracks a universe of sustainable firms, matched the S&P 500's from April 1990 to June 2016, and the Bloomberg Barclays MSCI Green Bond Index slightly outperformed the Bloomberg Barclays Global Aggregate from December 2013 to October 2017.

One reason that sustainable investing is likely to deliver strong financial returns is because investments that consider ESG risks are less likely to suffer from adverse events, accounting misstatements or regulatory fines. Typical areas identified for investment are also often seen as emerging industries, such as electric cars, sustainable agriculture, and financial services in developing countries, and therefore intrinsically include greater growth potential. In contrast, history suggests that unsustainable business practices are short-lived – consider what would have happened if you were still invested today in lead paints or asbestos insulation.

Besides ESG considerations, the United Nation's Sustainable Development Goals (SDG) act as core guiding principles for UBS Wealth Management's sustainable investing approach. A particular area of focus for the wealth manager is SDG 5, which strives to "End all forms of discrimination against all women and girls everywhere." Traditionally, funding for these initiatives has been provided by private donors and governments – but the amount raised hasn't been enough.

Sustainable investing could fill this gap. Heike Reichelt, Head of Investor Relations & New Products at the World Bank, elaborated, "The private sector is key to mobilizing the financing needed to face the immense social and environmental challenges that affect all of us. Investors have the power to make a difference. We are glad to partner with UBS to include World Bank bonds as part of the innovative strategies they are creating to offer sustainable investment opportunities across asset classes. This is a unique way to make more fixed income products available to investors committed to doing their part in working toward the Sustainable Development Goals".

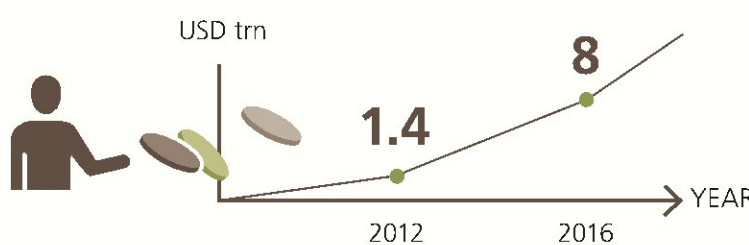
Investors in the region are becoming savvier about how they can affect change as shareholders, and UBS is facilitating this trend by increasing awareness and forming partnerships with key industry players. The bank's recent white paper "Mobilizing private wealth for public good" unveils a blueprint for channeling private wealth towards the UN's SDGs, and argues that wealth managers can do more to advance such goals and initiatives.

While sustainable investing is on its way to becoming a mainstream strategy in the US and in European markets, it's just starting to take off in Asia. "Favorable supply and demand dynamics for sustainable investments makes this area an attractive growth story in Asia, given its nascence and prospects for the future – the potential size of sustainable business opportunities is forecasted to be USD12trn by 2030. The concept of earning financial returns while promoting positive outcomes will continue to resonate deeply with investors in the years to come, making this structural trend a good one to enter at this early stage," highlights Min Lan Tan, Head Chief Investment Office APAC, UBS Global Wealth Management.



Family offices expecting to increase their investments in impact and ESG investments.

(UBS/Campden Wealth's Global Family Office Report 2017)

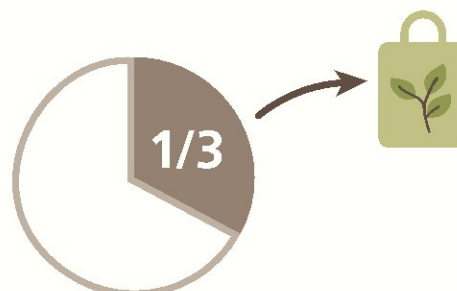


Growing investment from US money managers along environmental, social and governance lines.

(The Forum for Sustainable and Responsible Investment)

65%
Persons judging an investment's success based upon its social, environmental, or political outcomes.
(US Trust)

42%
Consumers choosing to buy brands based on social and environmental sustainability.
(Unilever research)



12trn
Potential size of sustainable business opportunities. (by 2030)
(Business & Sustainable Development Commission)



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