

# WHO'S WHO IN PRIVATE BANKING 2019

31

The Business Times | Wednesday, May 29, 2019

## Private banks doing more heavy lifting in challenging markets

### Roundtable participants

■ **Sim S Lim**, DBS Bank, group head of Wealth Management and Consumer Banking, DBS Bank  
 ■ **Pierre Masclet**, Indosuez Wealth Management, Asia CEO and Singapore Branch Manager  
 ■ **Benjamin Cavalli**, Credit Suisse, head of Private Banking South Asia and CEO Singapore  
 ■ **August Hatecke**, UBS Global Wealth Management, co-head of Wealth Management, APAC  
 ■ **Philip Kunz**, HSBC Private Banking, head of Private Banking, Southeast Asia  
 ■ **Ong Yeng Fang**, UOB, head of Private Bank

Moderator: Siow Li Sen, *The Business Times*

**P**RIVATE bankers are telling clients to stay cool and invested – allowing them to do the heavy lifting of managing their wealth in volatile, unpredictable times. So instead of do-it-yourself (DIY) options, increasing numbers of clients are turning to managed solutions and, not surprisingly, banks are enjoying more business, they tell *The Business Times*.

### BT: How's the business so far this year?

**Ong Yeng Fang:** While most asset classes have rallied from the lows of last year and client investment activity has returned, investment sentiment remains cautious due to ongoing China-US trade tensions. Against this backdrop, we have stayed prudent in helping our clients manage their wealth and investments with as much care as if those were our own.

We continue to invest in our people, products and platform. In 2018, we added almost 40 private bankers to our growing ranks in Singapore and the rest of the region. Our expansion plans also included the establishment of a booking centre in Hong Kong last year and we continue to hire talent to spearhead this initiative there. We take a one-bank approach in offering products and services to meet the personal and business objectives of our high net worth clients.

Our regional platform in terms of products and services has expanded to provide innovative investment solutions for our clients and to help our bankers be more effective in advising our clients. This approach has been core to our assets under management (AUM) for wealth management, increasing by 7 per cent in 2018 year-on-year.

**Sim S Lim:** 2018 ended on a challenging note given risks such as US-China trade tensions and Fed rate hikes, and the accompanying volatility that took markets by storm. Despite that, our wealth management business proved resilient and continues to see robust momentum. We churned out a strong report card for Q1 2019, with wealth assets under management rising 11 per cent year-on-year to a new high of S\$230 billion.

**August Hatecke:** Invested assets at UBS's wealth management division in the Asia-Pacific grew to US\$405 billion in the first quarter of 2019, making UBS the first wealth manager in the region to exceed the US\$400 billion milestone.

UBS saw strong growth with record net new money inflows of US\$16.3 billion in the first quarter of 2019, rising from US\$6.3 billion in the same period a year earlier. UBS plans to strengthen its position in the region by growing our domestic businesses in China, Japan, and Taiwan, in addition to continue being the lead wealth manager in our regional hubs of Hong Kong and Singapore.

**Benjamin Cavalli:** In the first quarter of 2019, our private banking business in the Asia-Pacific reached a record 219 billion Swiss francs (S\$297.9 billion) in private banking clients' assets under management, and achieved 5 billion Swiss francs in net new assets, at a strong annualised growth rate of 10 per cent.

While our performance was impacted by lower levels of market activity in Asia compared to the same period last year which was a record quarter, we achieved double-digit growth in revenues compared to the fourth quarter of last year as we saw positive momentum towards the end of the quarter.

**Philip Kunz:** In 1Q19, HSBC Private Banking client assets in Asia were US\$15 billion higher driven by positive market movements and strong inflows of US\$6.4 billion. That's an increase from US\$12.4 billion at end of 2018 to US\$13.9 billion by quarter's end. This strong performance reflects the key role that the private banking business plays in the overall Asian wealth strategy through focusing on ultra high net worth, offshore Chinese wealth and in Asean markets: Singapore, Indonesia, Malaysia and Thailand.

**BT: It's been said that the bull markets in Q1 have everything, except investors. Are your clients still off-market?**

**Pierre Masclet:** Given the very significant and rather unexpected selloff in the last quarter of 2018, coupled with significantly increased levels of volatility, clients naturally became more cautious at the start of this year and were adopting more of a "wait-and-see" approach. Especially since the turmoil affected almost all asset classes. Combine this with the "natural" calm in our industry caused by the Christmas/New Year festive periods and Chinese New Year in February, it's fair to say the start of this year was rather lacklustre. From late February onwards, however, clients returned to the markets and have been rather active since. We see moments like these, however, as a real opportunity to show our added value to our clients.

In turbulent and unpredictable markets, we need to stay even closer to our clients and our consistent approach, whatever the prevailing market circumstances, is that we focus on the long term and position our clients in a way that provides for 'all-weather' solutions, and not just focusing on the mood of the day.

**Mr Cavalli:** Many investors have indeed missed out on the



**Sim S Lim:** "We're generally seeing growing interest in discretionary portfolio mandates. The uncertain market environment has driven a flight to safety and holistic, diversified solutions that can withstand market swings – this has benefited our DPM business, which grew 50 per cent last year."



**August Hatecke:** "Invested assets at UBS's wealth management division in the Asia-Pacific grew to US\$405 billion in the first quarter of 2019, making UBS the first wealth manager in the region to exceed the US\$400 billion milestone... UBS plans to strengthen its position in the region."

Q1 bull market which has certainly been characterised by relatively low volumes across all client types. That said, most clients did not panic during the sharp selloff in December last year and have been rewarded with a sharp rebound in their risk assets. We saw some selective bottom fishing in December and early January, when we had an overweight call on equities and particularly China equities, but certainly did not see aggressive buying across the board.

**Mr Hatecke:** Many investors have pulled out from markets during the selloff we experienced late last year and were standing on the sidelines for much of Q1 and, thus, have missed much of the market rally. We have observed a return of investors to the markets in the second half of Q1. We recommend our clients to stay invested but diversified during more volatile times, allowing them to participate in market recovery as we have seen in recent months.

This creates a safety net for clients to invest in, and has allowed them to remain steadily invested in the market even through the dip at the end of 2018. With the market bouncing back in Q1, we're also seeing more clients reinvesting and jumping onto good opportunities that arise.

**BT: When risk aversion is high, are clients placing more funds into discretionary mandates?**

**Ms Ong:** We continue to focus on our discretionary portfolio management (DPM) services which our clients appreciate. Increasingly, our clients find that when market conditions are volatile, they may not be able to react in time to market movements and they value the important role DPM services play in such circumstances. A large proportion of our clients are entrepreneurs who also bank with us commercially and many of them are first-generation business owners.

They are usually too busy tending to and expanding their businesses to follow markets closely and so they prefer to let our investment professionals make the day-to-day investment decisions on their behalf. We have seen the demand for our DPM services increase over the last 12 months, with DPM AUM growing by more than 40 per cent from March 2018 to March 2019.

**Mr Masclet:** At times of elevated volatility and sudden and unexpected shocks to the financial markets, clients indeed tend to be more open to managed solutions rather than a DIY model. We generally see this trend when markets are choppy, volatile and unpredictable.

This in turn leads to increased interest for discretionary mandates indeed and also mutual funds, private equity and advisory mandates, as all these solutions carry an element of delegation with them: to a certain extent (advisory) or full extent, the client delegates the investment decisions to the banks' professionals or the mutual fund manager. This trend towards more delegation started predominantly after the 2008 financial crisis but has since continued, also in times of positive markets, so risk aver-



**Pierre Masclet:** "In turbulent and unpredictable markets, we need to stay even closer to our clients and our consistent approach, whatever the prevailing market circumstances, is that we focus on the long term and position our clients in a way that provides for 'all-weather' solutions."



**Philip Kunz:** "We remain invested, with measured overweight positions in the US and EM Asian stock markets. We have been advocating buying volatility, as it has been very low, and allows investors to remain invested while managing some of the downside risks until there is more clarity on trade."

sion is only one factor in the clients' decision to delegate.

**Mr Lim:** We're generally seeing growing interest in discretionary portfolio mandates (DPM). The uncertain market environment has driven a flight to safety and holistic, diversified solutions that can withstand market swings – this has benefited our DPM business, which grew 50 per cent last year, albeit from a nascent base.

Emotions can come into play when markets are jittery, and investors may be tempted to cut positions even though there may be value in staying the course. With DPM, clients can take comfort in knowing that their portfolio remains transparently invested, based on their individual risk appetites and guidelines, and that the same disciplined process applies even in such times of turbulence.

**Mr Hatecke:** Increasingly, our Asian clients have diversified their investment portfolio with impact and sustainable investments. Earlier last year, we launched a sustainable investing mandate and asset allocation fund, based on our unique 100 per cent sustainable Strategic Asset Allocation.

Since the sustainable investing mandate launch in the Asia-Pacific last April, we have raised over US\$550 million. Globally, the money managed according to this approach in mandates and funds has more than trebled from US\$1.2 billion to US\$5 billion, showing our clients' commitment to supporting sustainability causes without having to sacrifice financial returns.

**Mr Kunz:** We have continued to see client flows into our discretionary programmes, which assist our clients to build a core portfolio which is well-diversified and professionally managed. While earlier last year, equity and multi-asset solutions were more popular, recently the focus from clients has been more on fixed income programmes and especially fixed maturity programmes.

**BT: What is the outlook for the rest of the year?**

**Ms Ong:** Returns on global equities have been strong since the start of this year but came to a halt recently due to the rising trade tensions between the US and China. We have been advising our clients since the start of April to take a more cautious approach when it comes to managing their portfolios – allocating lower weight to equities, while loading up on fixed income and precious metals.

We have therefore been overweight on equities over the past two months, and overweight on fixed income in the emerging market investment grade and high yield segments. In addition, we also recommend clients to allocate part of their portfolio to alternative investments to diversify their portfolio risk.

**Mr Kunz:** Markets are principally being driven by their view on the economic cycle at the moment, and they are taking the view that the cycle is not coming to an end yet. Therefore, the economic cycle, and earnings, as the main



**Benjamin Cavalli:** "Most clients did not panic during the sharp selloff in December last year and have been rewarded with a sharp rebound in their risk assets. We saw some selective bottom fishing in Dec and early Jan... but certainly did not see aggressive buying across the board."



**Ong Yeng Fang:** "We have been underweight on equities over the past two months, and overweight on fixed income in the EM investment grade and high yield segments. In addition, we also recommend clients to allocate part of their portfolio to alternative investments to diversify their portfolio risk."

driver of market sentiment. The economic cycle is not coming to an end. US growth in Q1 was much better than expected, and Chinese growth is more stable than the market feared. Corporate earnings have also exceeded very low analyst forecasts. This addresses some investors' fears that we might be close to an end of the economic expansion.

We remain invested, with measured overweight positions in the US and EM Asian stock markets. But we are more selective than we were at the start of the year. We have been advocating buying volatility, as it has been very low, and allows investors to remain invested while managing some of the downside risks until there is more clarity on trade. In fixed income, we maintain our selective approach with a focus on carry and credit quality.

**Mr Lim:** Until we see a comprehensive US-China trade deal which includes the lifting of existing tariffs, we expect to see a continued "tug of war" between the bulls and the bears, translating into a volatile and wide-ranging market. Any downside to the market will be limited, thanks to two key factors.

First, the Fed has made a U-turn in its monetary policy, shifting from a hawkish to dovish stance. Second, China has undertaken various steps to boost its economy, such as by cutting VAT and corporate tax rates, and the Reserve Requirement Ratio for banks so that these financial institutions can lend more. We expect to see a bottoming out of the Chinese economy, which augurs well for Asian markets.

**Mr Hatecke:** We're in an environment in which investors need to both prepare for near-term risks and position for long-term growth. It might be tempting to try and time the market, but history shows this is almost impossible. Investors may wish to adopt a mild risk-on stance, including an overweight in global equities, backed by an out of the money put on the S&P 500.

Within our Asia portfolios, we remain overweight on offshore Chinese equities. This might be a good time to rebalance Asian equity portfolios. Investors may wish to move away from concentrated positions towards high quality and defensive segments. They should avoid concentrated exposure to sectors and stocks that have performed strongly this year but have limited earnings momentum. Instead, investors may wish to consider switching into high quality or defensive segments such as Asian large caps, Asian financials and stocks with high dividend yields. Furthermore, we hold an overweight position in EM high yielding currencies, which include INR and IDR for example.

**Mr Cavalli:** On the business front, the positive momentum we observed towards the end of the first quarter has broadly continued. We are cautiously optimistic about our prospects for the second quarter of 2019, but it is still too early in the quarter to draw definitive conclusions about the rest of 2019.