Going beyond stock and bond markets, there's a strong case for investors to explore the fact that structured products (a frequently misunderstood instrument often held as being too high-risk and complex) can be a good, stable and yes – boring – complement to existing portfolios. PHOTO: AFP

'Boring' is the new black

2019 seems set to be a challenging year for income investors who favour short-term and high-return plays. As the hunt for yield continues in an increasingly volatile and lower-for-longer environment, we advise investors to explore "boring" structured products as a stable source of income. BY AUDRA SEAH

AT THE start of the year, our Chief Investment Officer (CIO) advised that 2019 would continue to see a highly volatile and non-trending market, following in the footsteps of a roller-coaster 2018. We're now almost at the halfway mark, and clearly this remains the case.

With event risks such as Brexit and US-China trade war tensions on the horizon, income investors increasingly need to factor geopolitical concerns and outlier events into their decision-making process, on top of the usual investment considerations around valuation and credit analysis. In addition, as the Federal Reserve and other central banks continue to keep interest rates lower-for-longer, we're seeing a rising hunt for yield amidst falling interest rates, narrowing credit spreads and an inverted yield curve environment.

Minimal upside in capital gains

The challenge is even greater for income-seeking SGD investors. Investment opportunities in the SGD bond market are rather limited, particularly in the investment grade space – to put things in perspective, there are currently around 350 actively quoted SGD bonds, of which only 64 are investment grade.

Yields are low, in the range of 2 to 3 per cent, given the amount of cash chasing a limited pool of assets. These bonds may also be hard to source since they do not trade on an exchange.

As a result, yield-seeking investors are at times driven to stretch for returns by investing in bonds issued by riskier issuers or buying bonds in higher-yielding currencies, which then incurs other risk dimensions such as foreign exchange risk.

We're also seeing growing interest for products such as fixed maturity funds, which are bond funds that buy into a diversified portfolio of bonds and have a pre-specified maturity that's usually four to five years.

These provide investors the assurance that they will be able to receive the full notional investment by the maturity date, barring any defaults in the portfolio.

In volatile times, 'boring' is where the money should be

Against this backdrop, our advice for income investors is that "boring" is where the money should be.

Going beyond stock and bond markets, there's a strong case for investors to explore the fact that structured products (a frequently misunderstood instrument often held as being too high-risk and complex) can be a good, stable and yes – boring – complement to existing portfolios.

Structured products may not be top-of-mind nor familiar to most investors, but there's much value they can deliver. Structured products are essentially investments which are linked to an underlying asset or basket of assets.

Designed to address specific risk-return objectives, they are highly customisable to investors' objectives and can be used as tools to help navigate certain market conditions.

> "We were the first bank in Asia to introduce an outperformance structured product in August 2018, designed around the view that companies which operate in a sustainable fashion will, over time, do better than companies that do not."
> **Audra Seah**

In the current environment, income investors can explore structured products that are designed to achieve a stable income stream while reducing risks. One such example is the DBS Global Income Note, which has received a very positive response from our clients since we launched it in January this year – over S$1 billion was raised in just three months, and we're still seeing growing interest.

Fully conceptualised and managed in-house, the note was inspired by two things: the observation that clients' pent-up demand for well-diversified, stable income products outweighed the available options in the market, and the knowledge that we had the expertise to create a new product aimed at addressing these needs.

We structured a note linked to a portfolio of around 100 globally diversified and largely investment grade bonds, selected by our credit analysts and guided by our CIO's macro credit and duration views.

Actively rebalanced and monitored on an ongoing basis, the note provides investors with steady and regular income while enabling the benefits of diversification, which is essential in fixed income due to the asymmetric payoff profile – simply put, if you spend S$100 to buy a bond and it defaults, you have S$100 at risk whilst the return is limited to the coupon.

In contrast, if you buy a hundred different bonds, you could receive the same coupon but risk only a dollar on each default!

Structured products can also be designed to help investors tap investment trends in the market such as ESG (environmental, social and governance) investing, which seeks to achieve financial outperformance while also doing good. Still relatively nascent in Asia, many investors have yet to understand its benefits.

To this end, we were the first bank in Asia to introduce an outperformance structured product in August 2018, designed around the view that companies which operate in a sustainable fashion will, over time, do better than companies that do not.

The response was much better than expected, and we have since released five tranches of warrants and four tranches of notes.

Passive or risk-averse investors, do take note

There is a general conviction that interest rates are going to stay low for a while, with a dovish Fed that has reined in on its interest rate tightening course of action and other major central banks which are expected to ease monetary policies.

The increasingly volatile environment remains a concern, and it is essential for investors to keep close tabs on their portfolio – but this can be time-consuming and challenging, especially for passive investors who are less engaged in the day-to-day, or the risk-averse who crave more certainty.

As an alternative, investors can look to structured products that align with their investment objectives and can serve as a cornerstone of their investment portfolios, irrespective of recession or boom times.

■ The writer is head of investment advisory and capital markets, DBS Wealth.

Philanthropy in S'pore goes mainstream

As the city state prospers and grows, its citizens are giving back, with both their time and wealth. BY CYNTHIA D'ANJOU-BROWN

> "What is taught through philanthropic giving is applicable to life – stewardship, needs assessment, financial review, making choices, negotiation, collective decision-making and much more."
> **Cynthia D'Anjou-Brown**

AS I APPROACH my 20th anniversary living in Asia I am becoming more reflective of changes in the philanthropy landscape. Since the turn of this century, many Asian countries have made remarkable economic progress.

And this growth is bringing with it a new era of wealth creation and generosity.

State of giving in Singapore

The nation state is one of the top givers in the region. Singapore was ranked seventh in the World Giving Index 2018 . And this is especially significant when you consider the fact that Singapore was at the 114th spot just a few years ago in 2012.

This is surely reflective of a community that has changed dramatically in the last few years.

According to the report, 58 per cent of Singaporean respondents say they donate money, while 39 per cent volunteer in their neighbourhoods.

These figures are especially impressive when you consider the fact that in Willie Cheng's book *Doing Good Well*, shared that Singapore's National Volunteer & Philanthropy Centre (NVPC) reported a volunteerism rate of only 15.2 per cent and when it comes to giving of money, it cited 0.28 per cent of individual donations as a percentage of per capita gross national income in 2005.

While a growth in wealth and disposable income is definitely a factor in triggering these positive numbers, according to the Centre for Asian Philanthropy and Society's *The Doing Good Index 2018*, which put Singapore squarely in the "Doing Well" cluster, favourable policymaking was also a major push. For example, the Singapore government has a 250 per cent tax deduction policy for qualifying donations to help incentivise donating. In fact, in last year's budget, S$190 million yearly will be allocated to boost philanthropy .

Beneficiaries of Food from the Heart, a charity that feeds the needy, choosing fresh produce from a pop-up market. Singapore was ranked seventh in the World Giving Index 2018, a marked change from 2012 when it ranked 114th. BT PHOTO: KELVIN CHNG

The country also has a relatively easy to understand and shorter time for registration for charitable status, which undoubtedly helps attract more philanthropic individuals.

How philanthropy needs to evolve

The upward trend in philanthropic activities is heartening if one considers the formidable challenges we face.

Poverty of spirit and generational poverty are debilitating in affluent communities such as Singapore. According to the NVPC in Singapore, there is clearly an economic disadvantage for the growing number of single-parent families; the numbers of mistreated children have spiked; and the number of young drug abusers have been growing.

There is a newer train of thought regarding the need to be more solutions-driven about the pressing and interconnected challenges best articulated in the United Nations 17 Social Development Goals (SDGs).

This has led to an increased focus on systemic solutions, emphasis on resilience, co-funding, and bundled interventions.

Similarly, as personal philanthropy matures in Singapore, I believe the expectations of its results should as well. The question I often get asked is: how do we move from simply doing good to making significant change?

I believe that personal philanthropy can look to corporates and the incorporation of Environmental Social Governance (ESG) into their business framework for inspiration.

With a growing awareness of the risks that climate change brings with it, more and more governments and investors alike are requiring companies to disclose their practices and how they have incorporated sustainability strategies into how they work.

For example, just last year HSBC was part of Asia's first sustainability-linked club loan with Olam International, which linked the interest rate of the loan to achieving specific ESG criteria , so the more sustainable the business became, the lower the cost of the loan.

To enjoy a reduced interest rate, Olam has to meet improvement targets for a range of ESG metrics, which are tested on an annual basis to ensure the pre-set improvement targets are achieved.

This process of creating working standards and frequent disclosures has seen significant success in incorporating sustainable processes in the corporate world.

Similarly, rather than simply handing over funds to different charities, philanthropists can up their game by setting criteria or goals to ensure that the most is being made use of their donations. The organisations that receive these funds would then be expected to disclose their "results" and if they have successfully achieved specific aims.

By using a more organised and solutions-focused approach, I believe that we will be able to achieve even more social and environmental impact.

A double-edged opportunity

I often contend that philanthropy also provides personal benefits to the participating individual and family.

Learning to share and work with others is one of the first developmental stages in child development and enriches our lives. What is taught through philanthropic giving is applicable to life – stewardship, needs assessment, financial review, making choices, negotiation, collective decision-making and much more.

Respecting individual and group values and viewpoints, and balance in looking outward at others' needs in your community, are paramount for good relationships with diverse stakeholders.

One of our major donors recently said to me that a better understanding of and taking positive action on the wealth divide and root causes behind issues such as economic migration, political turmoil and poor governance and environmental damage is a choice we must make if we want to live peaceful, stable and healthy lives.

■ The writer is head of philanthropy, Asia Pacific, HSBC Private Banking.