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The wealth management landscape is entering a “new abnormal”. Slow economic growth, low and negative interest rates, unprecedented geopolitical events and monetary policies have made it tougher for investors to get returns from traditional asset classes such as equities and bonds.

The challenging environment is expected to persist. While Citi analysts forecast that the global economy will grow 2.8% this year from 2.5% last year, global growth is weighed down structurally by lower productivity, slower population growth and limited room for further monetary easing. With the higher valuations in a number of asset classes, it will get harder for investors to diversify their portfolios and obtain returns.

However, traditional asset classes will still be able to provide investors with attractive risk-adjusted returns despite the challenges, says Florence Tan, head of advisory, strategy and multi-channel communications at Citi.

“As the policy focus shifts to one with less monetary accommodation and potentially increased fiscal spending, the fundamentals for different markets, sectors and asset classes will diverge. As correlations fall, there will be room for active managers to add value to portfolios. Investors may also need to take on more risk to achieve higher returns,” she says.

“Citi analysts are currently overweight on US high-yield bonds. They note that US high-yield senior bank loans are offering attractive coupons, which can adjust to any change in the short-term rates. These loans also rank higher in the capital structure.”

Tan says the winners and losers this year are likely to emerge from the changing political and policy landscape, which will allow equity long-short strategies to outperform.

In this environment, it is imperative for fund managers to deliver consistent returns within a reasonable time horizon to stay ahead, says Affin Hwang Asset Management Bhd managing director Teng Chee Wai.

“Whether they invest in equities, fixed income or a blend of both, investors want their money to work hard for them and get returns. It is up to the fund managers to ensure this by navigating a very sharp and short cycle in all these markets. That is why I believe an unconstrained approach is key,” he says.

In an unconstrained space, fund managers will not be inhibited by indices, giving them latitude and the ability to seek out best ideas and prices, says Teng. This will provide investors and fund managers with an "unbenchmarked" view to potentially get the best returns.

"For example, you may have a huge business stock that is not doing well, but you are still holding it because it is in an index — you say that you need the exposure despite the fact that it is underperforming. However, adopting the unconstrained approach will allow managers to tell themselves that the companies are not performing and the fundamental outlook has deteriorated, so there is no need to invest in them," he says.

"Later, you will be able to look for the next best ideas in the market and invest in them. There is absolutely no reason to invest if the companies are not doing well."

Affin Hwang Asset Management first adopted this approach 17 years ago and will continue to do so in the current scenario, says Teng. "When I explained this concept to investors back then, the level of acceptance was not there. They told me that the way to invest is to know and track the benchmark.

"But I think that the way to invest is to find the best stocks, and provide the best possible returns — it is as simple as that — rather than just tracking the benchmark and giving excuses when the markets are down. This has been proved by our track record and I believe it will continue to prevail going forward."

The low-yield environment is not the only significant challenge faced by the wealth management industry. Many disruptions have taken place in the industry, including rising demand from a savvier generation of investors and advancements in technology, particularly with the emergence of financial technology (fintech) players.

The most notable change driven by these disruptions is the increased democratisation of assets. Lower entry points have been made possible for assets and products that were previously only accessible to affluent clients, such as private equity and alternative investments.

Patrick Chang, chief investment officer at CIMB-Principal Asset Management, says the traditional investment strategies implemented by fund managers are still relevant as the wealth management landscape continues to evolve with new entrants on board.

"The entry of new technology-based companies usually offer low-cost ETFs or index funds — for example, country or sector-based — which are suitable for tactical asset allocation. Therefore, investors who adopt a core-satellite asset allocation strategy, which is a hybrid of strategic and tactical allocations, can take advantage of both traditional asset managers and new disruptive technologies to optimise their potential returns," he says.

The emergence of the millennial client base, which has been dubbed the next wealth generator, has been shaking things up in the wealth management industry. The smartphone generation was born into technology and entered the workforce after the global financial crisis. They prefer a proactive approach to managing and investing wealth by using effortless channels such as mobile and web-based apps.

This, however, will not cause the wealth management industry to lose its significance, says Chang. "The emergence of a large millennial client base, which is typically more tech-savvy and tech-inclined, will quicken the digitisation of investment services. However, the role of advisory and investment services remains highly relevant for more sophisticated and tactical solutions. This is particularly true in a volatile market."

As the market is facing headwinds and moving towards product homogeneity, what will it take for wealth management players to stay ahead of the curve? Tan says in an effort to be on the cutting edge, Citi continually accesses its investment businesses around the world to source for new products and services that help clients meet their financial goals in a changing global environment.

The group also continually assesses the relevance of the investment strategies it implements in its businesses when offering product solutions, she says. “For example, while Asian investors are still largely income-oriented, given the low interest rate environment, investors in other geographical areas may be more interested in inflation hedges or currency diversification. When Citigold relationship managers recommend product solutions to customers, they also take into account their financial goals and portfolios.”

Chang says staying ahead of the curve requires continuous acquisition of investment skillsets, strong product propositions and efficient distribution models. “At CIMB-Principal, we continue to find ways to improve and strengthen our investment capabilities and processes. For instance, we are developing our own in-house capabilities on ‘quantamental investing’, which is a hybrid of quantitative research and traditional fundamental analysis.”

These issues and strategies will be discussed at The Edge Citigold Wealth Forum, titled 2017 Investing & Market Outlook: Riding the New Wave. It takes place on March 11 at the InterContinental Kuala Lumpur.

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