

Viewpoints

Q&A

The global balance shifts

Dynamism in Asia-Pacific economies



Paul Colwell
Senior investment consultant
and chair of the Asia Portfolio
Construction Group



Sonja Lee
Senior investment consultant,
Thinking Ahead Group

Former equity manager Paul Colwell, now senior investment consultant and chair of the Asia Portfolio Construction Group talks about how the Group helps clients and interesting projects he's working on with Sonja Lee, senior investment consultant with the Thinking Ahead Group.

Q What are some things that most people don't know about you?

A I do tend to talk a lot and I consider myself quite open, so most people know quite a bit about me. I have to go a fair way back to answer that – probably to when I was about 12 years old and was a Liverpool mascot when they came to play in Dublin. I'm a big Liverpool fan so this is one of the highlights of my youth. A more recent highlight was a trip to Brazil for the World Cup! I also consider myself a very curious guy and have huge interest in history and geo politics so I read a lot on those topics; the rise and fall of empires, as well as things like city and civil planning.

Q With those interests, what's your read on the global political economy from an investment perspective?

A Looking at major global bilateral relationships, the next 20-30 years makes for a very interesting world. In the past, the US provided leadership, safety and stability. But with its piles of debt, and recent low-growth environment, in my opinion the global balance has shifted towards Asia-Pacific. That said, in the short term I do believe that policy and good internal growth dynamics will support US markets. Looking at the EU, it faces massive challenges but I believe many are quite possibly underestimating its resilience and the commitment to the European project.

Europe has the potential to provide a counter balance to Russia, to a declining US and a rising China. The EU as a collective still makes a lot of sense, although there may be countries that do their own thing from time to time. If the EU were to overcome some of the challenges it faces, it would be a very healthy place to do commerce over time. The big elephant in the room is Japan – if the Government there can lead sustainable change and restructure, they can do it.

Q What about China and AP as a region?

A I've been living and working in Asia for four years now and while I don't pretend to be an expert on the region, according to our economic and markets research and extensive interactions with institutional investors and investment managers here, I would say the outlook for Asia is still pretty good. China is experiencing a number of difficulties as it looks to rebalance its economy into a more sustainable growth model, while dealing with a significant debt pile up. This is the conventional wisdom. I don't know if the economy is likely to significantly deteriorate during the short run, but I am inclined to believe that a few years of below par growth will likely be offset by the emergence of great investment opportunities. In other parts of Asia I continue to be amazed at the general dynamism of the economies and see many opportunities for long-term investors with patient capital.

I believe the global balance has shifted somewhat towards Asia Pacific. This is not to say I think other regions are no longer interesting or attractive, rather the relative balance of power no longer sits exclusively in the hands of the US and Western Europe. This will certainly continue to make for interesting times ahead.

Q What's your role at Towers Watson?

A As senior investment consultant and Chair of the Asian Portfolio Construction Group (PCG), my responsibilities include working with clients in the region - mostly sovereign wealth and public pension funds. My work typically involves portfolio construction advice as well as facilitating consulting business with them across our lines of business.

My other major responsibility relates to Asia PCG where I'm responsible for driving that group's efforts, the delivery of research, thinking and the advice we give to our consultants that we then deliver to our end clients.

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Q What do you mean by portfolio construction?

A Portfolio construction bridges the gap between strategic asset allocation (SAA), which is somewhat mechanical / theoretical and the implementation part. It's the practical and pragmatic side to portfolio development and design. If you build a skyscraper and an artist does an impression - that's the SAA. You then need an architect or engineer to draw blue prints to build the skyscraper - columns, beams, support structures, etc. You need to fill it out and build it and that's portfolio construction.

With regards to portfolio construction on the client front, we identify their beliefs, objectives, and constraints, and when they come together, we use that as input in designing the portfolio. We look at which asset classes to include - equities, bonds, alternatives - which assets they should consider for active and passive management, and how they build it into the manager structure. It's a conversation on alpha, beta and how it comes together to build an efficient portfolio structure, that often seeks to meet multiple (and sometimes competing) objectives.

Q Tell me about Asia PCG and how it fits in with the rest of the Investment team.

A The role of Asia PCG is to provide a function that brings together all our research capabilities and thinking, including asset research team, the Thinking Ahead Group, manager research and our Global Investment Committee (GIC) thinking into the Asia context. We provide our consultants and ultimately our clients with views and perspectives on how to build an efficient portfolio for their needs.

Asia PCG looks to work with client consultants to understand the client context then feed it into their thinking and we see their portfolio as the end solution. We also provide a discussion forum for client issues and act as a review function to ensure consistency and alignment in the type of advice we give to clients in the region.

There are eight members of Asia PCG. I'm the chair, plus a secretariat and six further members drawn from various backgrounds and disciplines across the business. We have people involved in manager research, investment strategy and a linkage to our GIC via Peter Ryan-Kane (head of portfolio advisory, Asia Pacific). We also have linkages to the UK PCG which ensures that Asia PCG is well aligned to our global thinking and understands best ideas and best practices from overseas.

The Asia PCG team provides insightful feedback across asset classes (bonds, equities, private markets) as well interesting views on strategy and portfolio construction perspectives. We're a diverse group and have been built that way on purpose.



Q If I were a client, when would I call you?

A I can think of four main occasions when you might call Asia PCG:

- If you were looking to build a real world, practical, pragmatic multi-asset portfolio that moves beyond basic equities and bonds
- If you were looking to build a specific equity only or fixed income only or private markets only portfolio
- If you were looking to design a portfolio that factors in quite specific alpha or beta views
- If you were looking to build and maintain a “dynamic” portfolio.

We are always happy to talk to clients if they have portfolio construction and implementation questions or concerns. I firmly believe we add value to clients by providing a view and perspective that benefits from the collective experience that we’ve built within the group and the clients we deal with (both within the region and indeed globally). This can then be put to work for the benefit of other clients who may be encountering similar issues or challenges. A good example of this is the move within certain parts of South East Asia to diversify more assets into overseas investment markets. We have worked with a large number of clients who made similar moves in the past and we are in a great position to share our experiences and the lessons learned.

Q What are your service offerings?

A Aside from providing investment and portfolio construction advice to clients we also offer research such as portfolio construction related publications and investment proposition papers, guidance notes and perspectives on various asset classes in a portfolio context. As previously discussed, we provide a discussion forum for clients (typically those on retainer), and offer dynamic strategic asset allocation as well as general portfolio construction advice. We build model portfolios that can be used as a starting point to provide clients with more localised, tailored portfolio construction advice.

More generally we look to bring our global best practices and ideas to the Asian context and make them relevant for our Asian clients. We were one of the first in the region to dedicate resources to portfolio construction and have built up significant experience in the last five years.

Q Can you give me an example of some recent work?

A We recently helped a public pension fund to design a global equity portfolio. For this project, we worked with the client to build a tailored portfolio, giving them the exposures they desire while aligning it with our best thinking that is consistent with their objectives and constraints as well as their abilities to manage more complex portfolios. We set up and designed a portfolio construction road map whereby they can move from one stage on the roadmap to the next over time, adding in greater portfolio diversity, by introducing new aspects into it. This allows the client to build a more developed and yet complex portfolio but in a more measured way enabling them to add their own internal capabilities over time.

In another instance, we assisted a client in building a more dynamic equity portfolio, by providing our best thinking on a customised portfolio appropriate for the prevailing market environment of the time. We further assisted this client to develop a framework to enable it to manage the portfolio in a more dynamic fashion, with Towers Watson continuing to provide best ideas and input.

On the bond side we have helped a number of clients build better bond portfolios. Here the client is typically looking for an alternative to a global aggregate market cap oriented portfolio, one that offers more strategic control and provides dedicated exposures to areas of the bond market that are preferred given the strategic market outlook. Increasingly we are helping clients with their alternative portfolio exposures, such as private markets and hedge funds.

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Q What is the difference between the Global Investment Committee and PCG?

A The GIC is responsible for coming up with our views on asset classes and thinking on various market opportunities as well as providing us with our risk and return modeling assumptions. They are also tasked with providing best ideas and best practice for use in our advice to clients.

GIC differs from us in that they provide a global framework, have global views which are not necessarily tailored toward any particular region or client setting and they look to provide longer term views, thematic views, macroeconomic outlooks, and central scenarios in how we see how markets unfold. Asia PCG translates what GIC produces into something more tangible and relevant for clients in the region.

Q What's on Asia PCG's research agenda?

A Increasingly, we're looking at building Asia-centric portfolios, as well as more portfolios for different investment and economic scenarios which may play out for our clients and the merits of various alternative investments and private market investments across different client groups. We're also examining better growth portfolios, Asian portfolios and bond portfolios for clients – that's an evolution not a revolution. Our advice is not static and we are always looking ahead. As such our advice to clients continues to evolve.

One thing we're looking to do more of is to translate the GIC secular investment outlook (that is to say our very long-term thematic views) into the Asian context and what that means in a practical sense for clients – how these themes can be implemented with our clients and included in their portfolios

We've produced a number of publications on investing into Asian equity taking into account the alpha and beta story, investing into Asia more generally including Asian bonds (which also links in to our research into the better bonds space) and private markets. Indeed, linked to this we recently undertook an Asian alternatives survey to better understand how we can provide better PCG advice to clients considering alternative investment.

Q What's the best thing about working in Asia PCG?

A I think it's the ability to work with very interesting clients in the region who are looking to design and build more efficient portfolios. I also like working with clients in an ongoing interactive basis as peers, working in partnership to achieve common goals.

About Towers Watson

Towers Watson is a leading global professional services company that helps organisations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.

Further information

For further information please contact:

Paul Colwell

+852 2820 9936

paul.colwell@towerswatson.com

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