Investing in an uncertain financial landscape is no easy task, particularly as ever-increasing technology innovations unlock new investment strategies and accelerate change in existing ones. Whether the disruption proves to be a headwind or a tailwind depends on how investors react to it. That was one of the key messages from the 2017 Invesco Asia Pacific Institutional Client Conference in Beijing in November.

Turning competitive threats into opportunities using FinTech

The conference theme of “Ahead of the Future: Investing in Transforming Trends” was chosen to prompt a dialogue on how to navigate upcoming changes in the market. While the way forward is still emerging, what was clear during discussions was that investors agree sticking to the status quo is not an option.

Senior executives from companies on the frontlines of digital disruption were invited to share their insights on technology advances like artificial intelligence and machine learning and on how financial services corporations could apply the learnings to cultivate a forward-looking, decision-making model. Mo Gawdat, Chief Business Officer, Google X, described his company’s framework for innovation of first identifying a major problem and then considering how to solve it, assuming everything is possible. This has translated to successful inventions like driverless cars and delivery drones. Meanwhile, Jennifer Zhu Scott, Founding Principal, Radian Partners, discussed how the pace of technology development is increasing exponentially and how that serves as a model for investors to strive toward identifying breakthrough points before they occur or otherwise risk missing out on new trends.

Turning competitive threats into opportunities was the topic of the session hosted by Donie Lochan, Chief Technology Officer and Global Head of Invesco Technology. Rather than avoid FinTech firms, he said financial institutions can partner with them and externalize parts of their innovation functions to reshape customer expectations and set a higher bar for user experience. He also shared how Invesco has strived to deliver a more personalized investment experience in part by acquiring Jemstep, a robo advisor, and through enhancing capabilities in predictive analytics and data platform design.
A challenging, low-yield environment but investor expectations remain the same

A major point of discussion was how to adapt investment strategies to the current low-yield environment, particularly as valuations continue to rise. Compounding the challenge is that central banks in key global markets have already started to reverse years of unprecedented monetary policy accommodation. The change in course is expected to be gradual but could still cause unexpected market movements across asset classes.

In an Invesco CIO forum, Bernhard Langer, Chief Investment Officer, Invesco Quantitative Solutions, discussed how a more discerning market environment makes it especially important for investors to assess how truly diversified their portfolios are. With increased data availability and a greater breadth of investable products, investors now have more tools available to analyze their holdings and take action. In an audience poll, 72% said that asset owners should not have to reduce expectations simply because of the low-yield environment (Figure 1).

**Figure 1: Should asset owners adjust expectations in a low-yield environment?**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Asset owners should diversify their portfolios to solve the problem</td>
<td>72%</td>
</tr>
<tr>
<td>Yes. Taking on too much risk now is potentially worse in the long term</td>
<td>20%</td>
</tr>
<tr>
<td>Unsure</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Live poll taken on November 1, 2017 (69 respondents)

Speaking on the same panel, Duy Nguyen, Portfolio Manager and Chief Investment Officer, Invesco Solutions, spoke about how asset managers can best help asset owners achieve their financial objectives by first partnering with them to understand their specific needs and then customizing a unique investment approach for them. He said, “Going forward, we need to bridge the engagement gap to provide outcomes rather than products.”

> “Going forward, we need to bridge the engagement gap to provide outcomes rather than products.”
> - Duy Nguyen, Portfolio Manager and Chief Investment Officer, Invesco Solutions

New opportunities in Chinese equities

With the proceedings taking place in Beijing, there was considerable interest in new developments regarding onshore Chinese equities. Richard Chow, Deputy Chief Executive Officer and Head of Investments, Invesco Great Wall, spoke about China’s transition to a consumption-driven economy, highlighting how GDP per capita has increased more than 10-fold over the past two decades. Rising wealth could trigger positive catalysts in areas like insurance, discretionary retail, technology development and mobile payment. The increasing significance of China A-shares was also discussed. China’s onshore equities could ultimately represent about 13% of the MSCI Emerging Markets Index upon full inclusion after receiving approval from the index-provider following four years of discussions.

Meanwhile, in a session called “Tapping into the untapped: Hong Kong Stock Connect,” discussion turned to the impact of a recently implemented scheme that enables mainland investors to directly trade securities in the Hong Kong market. Findings showed that mainland investors accounted for 22% of trading turnover in Hong Kong in 2016, up from 11% before the scheme was enacted in 2013.

1. For more details, read Invesco’s “The Dragon Code: MSCI votes ‘yes’ to include China A-shares” (June, 2017)
The new regulation enhances mainland institutional investors’ capacity to access a more complete investment universe, while the increasing fund flows could benefit Hong Kong-listed stocks.

**Rising interest in factor investing and ESG**

Factor investing was another topic that generated interest during the conference. Fueled by rigorous research and technology developments over time, factor investing has advanced significantly compared to what was possible just a few years ago (Figure 2). Stephen Quance, Director, Factor Based Investing, Asia Pacific, Invesco, shared how focusing on factors—not sectors, geographies or market values—potentially offers access to more stable returns and very specific outcomes.

![Figure 2: Actual factor model vs. previous models - Excess return (%)](image)

Simulated performance is not a guide to future returns. Source: Invesco as of September 30, 2014. The data shown relates to simulated Invesco Global Market Neutral Strategies. Portfolios managed in accordance with the strategy may differ due to specific investment restrictions and guidelines. The above “Actual Performance” represents excess return of a simulation of our Invesco Global Market Neutral Strategy using always the current model for optimizations. The “frozen” series are those where the model was frozen at their starting points and we simulated what the performance of the portfolio would have been based on the relative returns of simulated global market neutral portfolios scaled by difference in relative risk levels. Frozen returns are simulated. All returns are gross of fees. The simulated portfolio is based on the IQS global stock selection universe consisting of approximately 3,000 stocks. Data in USD.

The rising trend of environment, social and governance (ESG) investment strategies also came under consideration, sparked in part by discussion on how China has emerged as the global leader in green bond issuance with more than US$50 billion in total issues. In an audience poll, a combined 68% saw value in ESG investing either to fulfill the responsibility of being an asset owner or positively impact returns (Figure 3). Bonnie Saynay, Global Head of Responsible Investment and Proxy Governance, Invesco, noted how the proliferation of stewardship codes around responsible investing signified growing acceptance of it as a core investment approach. She added, “Impact investing is not about sacrificing return in exchange for doing good, it is about achieving both.”

> “Impact investing is not about sacrificing return in exchange for doing good, it is about achieving both.”
> - Bonnie Saynay, Global Head of Responsible Investment and Proxy Governance, Invesco

3. For more details, read Invesco’s “China green bonds: A sustainable asset class”.
Jayne Bok, Head of Investments, Asia, Willis Towers Watson, revealed that in a survey of 15 leading global institutional investors, 13 have dedicated staff for sustainability/ESG issues and five plan to increase their allocations to sustainable investment over the next five years.

**Figure 3: How will ESG investing affect returns?**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>That's not the point. Responsible investing is a primary responsibility of asset owners to induce positive change</td>
</tr>
<tr>
<td>36%</td>
<td>Positively. Greater governance should positively affect corporate productivity and returns</td>
</tr>
<tr>
<td>23%</td>
<td>Unsure. There is not enough evidence one way or the other</td>
</tr>
<tr>
<td>9%</td>
<td>Negatively. ESG may place constraints on business that will hurt returns</td>
</tr>
</tbody>
</table>

Source: Live poll taken on November 2, 2017 (22 respondents)

**Building an effective portfolio using alternatives and real estate**

As investors took stock of the uncertain financial landscape, discussions throughout the conference probed for new investment opportunities to secure greater diversification, additional sources of income, return potential or volatility control.

CIC also led a discussion about how to build an effective portfolio via asset allocation from an investor’s perspective. Hua Fan, Managing Director, Head of Asset Allocation Department, China Investment Corporation, spoke about the progress made toward developing a transparent and resilient portfolio approach that is suitable for different market environments. She shared how the sovereign wealth fund constructs its reference and policy portfolios and discussed the interplay between the two as it seeks to maximize returns within an acceptable risk level.

The alternative space also featured prominently throughout the conference. Aaron Costello, Managing Director, Cambridge Associates, spoke about how to find alpha in alternative investments, highlighting how investors should focus on manager selection, keep valuations in mind and be willing to pay higher fees for the right approach. He noted that within alternatives, specialty finance—like real estate loans, ship leasing and movie royalties—offered an attractive risk-reward balance in the current environment. Also during the conference, senior secured loans (SSL) were examined as another alternatives opportunity that could perform better as interest rates rise globally given the investment’s potential for minimal duration risk, low historical correlation of returns and consistent monthly income. SSL has demonstrated a positive performance record over the past two decades (Figure 4).
Figure 4: Historical Total Return Breakdown of US SSL into Price Return and Income Return

Source: Credit Suisse January 1993 to December 2016.

Real estate was also discussed as providing a strong income stream in the low yield environment. Cheng-Soon Lau, Managing Director, Asia Pacific, Invesco Real Estate, highlighted investable trends in the asset class, particularly in the context of potential impact from new technology like drones, for example, which could provide roof income for offices that accommodate deliveries. He also discussed the potential effect of other technologies such as e-commerce, autonomous vehicles and artificial intelligence.

While the conference focused on innovation and adapting to future market trends, Andrew Lo, Senior Managing Director and Chief Executive, Asia Pacific, of Invesco set the tone at the outset about the renewed importance of maintaining a systematic, proven investment process with a strong emphasis on risk control. “Asset management is not a 100-meter sprint,” he said. “What’s served me well is to treat it as a marathon, improve our investment capabilities over time and always remember the fiduciary duty to our clients.”

“Asset management is not a 100-meter sprint. What's served me well is to treat it as a marathon, improve our investment capabilities over time and always remember the fiduciary duty to our clients.”

- Andrew Lo, Senior Managing Director and Chief Executive, Asia Pacific, Invesco

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