

## Video Transcript

### In conversation

#### **HSBC's Annabel Spring talks investing with Nicolas Moreau**

#### **Annabel Spring**

Hello and welcome. I'm here with Nicolas Moreau, CEO of HSBC Asset Management. Nicolas joined HSBC in 2019 and has over 30 years of experience in the asset management and insurance industry. And he's a key part of making HSBC a leading international wealth manager globally. So, Nicolas, thank you so much for joining us.

#### **Nicolas Moreau**

Thank you, Annabel. Thank you for having me. It's really a pleasure to be here with you today.

#### **Annabel**

Thanks, Nicolas. Now, what hasn't necessarily been a pleasure has been the last year. We've had geopolitical and economic turmoil, with a lot of volatility in the markets, and obviously there's still the challenges lingering from COVID. What's interesting for you in the markets and what are you looking at?

#### **Nicolas**

Well, the markets are absolutely fascinating right now because it's sort of a once-in-a-lifetime event where we've got those interest rates going up sharply. Stock markets are now very difficult. We have rotation between the growth stocks that have been in favour for so long to more value stocks. Inflation coming back, recession potentially.

It's a very difficult market to navigate, and I think we've got a key role to reassure and to support our clients there.

In the context of this outlook, what are you telling your clients, particularly when it comes to the use of alternatives as a tool for diversification and returns?

#### **Annabel**

I think diversification and differentiated returns is exactly the right question. And look, you're right: in light of the current market environment, alternatives have become increasingly attractive as a source of interesting thematic investment ideas that hold the promise of returns, where traditional balanced portfolios of equities and bonds have on occasion underdelivered. And in the context of alternatives, we're overweight hedge funds in our views, because we believe that clients should be able to take advantage of opportunities generated by volatility. In addition, obviously they are a key diversifier at a time where those correlations are still high between equity and bonds.

The democratisation, I think, is also an important theme, with lower minimum investments meaning that some solutions are available to more of our clients.

So I'm curious, one of the thematics that we have been looking at in alternatives is thematics to do with ESG. Sustainability is top of mind for many of our clients, and it's been a focus for a number of years. How have you seen ESG trends evolve not only in alternatives, but across the broader market?

**Nicolas**

We've seen a huge development. I think now our clients are much more interested, but also regulators are much more interested, in what is the impact that my investments are producing. Is that lower carbon in my portfolio? Is that best-in-class champions – ESG champions in the sector? Is it the people that are evolving the fastest that will have the biggest impact? Is it that impact on the S? Is it making good from a social standpoint?

We have also seen some new trends coming. Biodiversity is really the new thing and it's a very complex subject to treat because carbon is just one factor. Biodiversity is huge. It is so diverse; it's infinite in terms of how companies can impact biodiversity.

Our task is now to invest into how can we measure the impact of a company on biodiversity. And that's our new frontier. We are investing a lot into this. We've got a joint venture called Climate Asset Management that is investing into natural capital.

But you, Annabel, with your clients: When it comes to ESG, what are the key focus areas?

**Annabel**

Client education is becoming interesting because as you said, you know, we've gone from the simple E conversations to the S to the G, and ESG is no longer a new conversation with most clients. Most clients are actually really passionate about it, which is fantastic.

And we're finding those conversations are evolving from, you know, really specific thematic, personal passions of clients, which we want to make sure that we can fulfil, through to, now, how do they look at that ESG infrastructure across their entire portfolio? And how do they really tailor that to align their financial aspirations with their impact or their sustainability aspirations, and making sure that we have got innovative discretionary portfolios and alternatives to really allow them to express those preferences.

Secondly, of course, performance matters. And in this market, you know, we've had fossil fuel prices rise dramatically because of the geopolitical turmoil that we've lived. And that's been quite challenging as you look at relative performance for some of the funds.

And while we've had relative outperformance in oil-based stocks, we will also see a rapid investment in renewables. So it's one of those challenges where, you know, you've got a bout of volatility and it's wise to build resilient portfolios that perform in the short term and the long term and really unwise to ignore the long-term opportunities that ESG and particularly those renewables constitute, because that theme of net zero, it's not going away and it's absolutely imperative for the planet.

Finally, we're investing a lot in data analytics to be able to explain to our clients exactly what they have in their portfolios with respect to transparency, and also to be able to see it through a digital toolkit that allows that transparent ESG reporting.

**Nicolas**

So you've already elaborated a lot on ESG reporting, but what else are you expecting from your asset managers?

**Annabel**

Well, when I'm talking to an asset manager, I will always start with performance. Then we look at the teams, the consistency, the teams' stability themselves, the consistency of the performance, the repeatability of that performance, and how that will really continue to generate alpha through the different market scenarios that we've had. And then we do obviously monitor the performance on an absolute and relative basis.

That's all the mechanical stuff. I think the thing that we also look at a lot is the culture of the firms, because when we get to sustainability of performance, not just in an ESG sense, but in a regular sustainability business context, the culture of asset management is incredibly important, and we look through all of those, as well as, of course, the costs of those funds. So that's an important aspect as well. What we're increasingly looking at, though, is innovation and cutting-edge ideas.

Talking about innovation, one of the things that's really changed in the markets recently is how tech stocks and tech companies have performed. How are you thinking about that space as an asset manager?

**Nicolas**

We have seen a huge correction in the tech sector. I believe that when money was for free, it was easy to, you know – there was a lot of money floating into all innovations. This would be the time to have a great asset manager supporting you in picking the right investments. There will be more innovation, whether this is on the sustainability front, where we need technology to help us to go into this net zero world – this will be a key component.

**Annabel**

I think the other aspect of technology, though, is how are you using it in asset management? And if you are looking at global private banking clients, how is your use of technology helping our clients?

**Nicolas**

I see our job to find the value advantage in information. So data is absolutely essential and the treatment of data is absolutely essential to identify investment opportunities for our clients. So a big part of our tech investment today is going into getting a faster, better approach to information and be able to extract value from this information.

That would be on the sustainability front, a very important aspect, which is, how can we measure carbon consumption by clients as a new frontier as we talked before about which is about biodiversity, how can we measure biodiversity?

So we are working with a lot of data providers and doing a lot of treatments on data to make sure that we can have a broader, deeper access to information. I think that's one of the aspects of what we do, trying to get a better performance for your clients.

The second is using technology to be more effective. One of the areas is in dealing. We need to be outstanding in dealing. So we've worked in the past three years to have a global dealing desk to use perhaps less counterparts, but to get more from them and to automate as much as possible our trades so that we can get into the pockets of liquidity that are the most effective.

And I think the ultimate frontier for us is about building a personalised portfolio for clients. Without technology, it's impossible.

**Annabel**

That's a lot of the investment that we've been doing together, if you think about the discretionary portfolios. Do you want to talk a little bit about that specifically?

**Nicolas**

Discretionary portfolios are really customisation. I think we are at phase one of automating discretionary portfolios and giving to clients, really, the personalisation that they want.

Today what we see is that clients want either to put their own criteria for sustainability or for ethical judgment, or their own investment preference in a portfolio. And we have to offer that to clients. This is essential. And a lot of services are being developed in the industry right now, like offering our clients the opportunity to vote on their own stock.

**Annabel**

And I think that's what all of our clients are looking for. So this has been a tremendous discussion, Nicolas. I'd like to thank you very much for joining me.

**Nicolas**

No, thank you for having me.