

Q&A

UFG Favors Corporate Bonds Over Equities

Oksana Kuchura, partner at family office UFG Wealth Management, which caters to Russian clients, spoke to Bloomberg Brief's Darshini Shah about how a 'dimmed to dismal' outlook for equities has resulted in the firm allocating most of its portfolio to fixed-income instruments.

Q: How are you catering to wealthy Russians this year in terms of their portfolio allocation?

A: Russian high-net-worth individuals and ultra-high-net-worth individuals face different challenges — some sold established businesses and started new ones, some are reallocating to other jurisdictions, some demand stable cash flow. All these goals require different investment strategies. As for UFG Wealth Management, 95 percent of our typical portfolio consists of hard currency fixed-income instruments. The rest is equally split between cash and equity instruments.

Q: Why is most of the portfolio in fixed income?

A: Due to our clients' specific liquidity and safety needs, we believe that investment-grade and the highest-ranking high yield corporate bonds of issuers from developed markets are the best places to be in the medium to long term. In the short term, as we approach a rate hiking cycle in the U.S., fixed income instruments in developed markets would experience elevated volatility. However, as the world economy continues to face slow growth and deflation concerns, bonds of good-quality corporates will bring investors decent returns in the medium to long term.

Q: Is the fixed income portfolio biased towards developed markets?

A: The fixed income part of portfolios is skewed towards developed market

issuers — approximately two-thirds — with a third in emerging market corporate and sovereign notes. We also moderately employ derivatives both as hedges and to enhance returns in a difficult market environment.

Q: Why is such a small part of your portfolio in equities?

A: Given that markets globally — mainly developed countries — face rising interest rates in the short to medium term, our outlook for equities ranges from dimmed for developed to dismal for emerging markets.

Q: Do you invest in alternatives at all such as private equity, hedge funds or property?

A: Russian HNWI and UHNWI in general have had quite an upsetting experience with private equity and thus they either abstain from such investments or engage with them personally, devoting lots of time and effort for research and supervision themselves.

At the same time, Russians traditionally like investing in real estate. At the moment, we are seeing growing interest — both among our clients and Russian investors in general — to diversify into European commercial real estate. In the past, the focus of such interest was traditionally concentrated in London, however, following the numerous financial crises, significant money flows shifted to

continental Europe.

Q: How do you cater for that demand?

A: UFG runs three Luxemburg-based funds, which invest in commercial real estate both in Russia and Europe and we constantly look at the new opportunities. The current market environment in Russia, with the falling ruble — makes hard currency investments the most alluring.

Q: What is your outlook for the remainder of the year?

A: Our outlook for the year-end is rising volatility in emerging market equities and emerging markets in general, a strengthening U.S. dollar on the back of markets' anticipation of interest rate hikes in U.S., sideways movements in developed markets' bonds and equities and continued weakness in commodities.

Q: Does Greece/China worry you?

A: We do not believe that China is going to implode, causing new global crises. But its slowing economy is going to add deflationary pressure and will make the rate hiking cycle significantly less aggressive compared with the past.

As far as Greece is concerned, it's too small an economy to truly influence the global outlook. However, its ongoing saga is causing regular volatility outbursts, which are worth watching to pick up some interesting European names.

AT A GLANCE



Age: 41

Professional Background: Troika Dialog Management Company, UFG Wealth Management.

Education: Kazakh University of International Relations and World Languages

Family: Married, daughter

Hobbies: Yoga, kite surfing, skiing

Favorite book: The Power of Now, Eckhart Tolle

Favorite restaurant: Chotto Matte, London