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Products and Solutions for Asia's HNWIs: Golden Opportunities Await

Hubbis and co-host J. Rotbart & Co. held a private lunch discussion attended by internal and external asset managers, multi-family offices and independent wealth managers to discuss different approaches to asset management, advisory mandates, products and solutions, as well as zooming in on precious metals, especially physical gold.

Executive summary

"Gold is a treasure. He who possesses it does all he wishes in this world..." Those, reportedly, are the words of Christopher Columbus, 1451-1506. A private, off-the-record discussion hosted jointly by Hubbis and J. Rotbart & Co was held in Hong Kong to discuss the role of gold in the wealth portfolios of Asia's high-net-worth individuals (HNWIs), as they structure their personal and family assets for preservation, growth and transition to younger generations.

Gold, the assembled asset management, private banking, family office and other wealth management experts heard, has intrinsic value in civilisation, and according to Joshua Rotbart, CEO of J. Rotbart & Co, will remain a very valuable asset for the foreseeable future. It should, he maintained, represent some 5% or more of any professionally assembled portfolio at any time and can be especially positive in times of uncertainty. It is accepted everywhere and therefore can be viewed not only as a commodity but also as a de facto global currency.

Gold has come into ever greater focus since the global financial crisis. It is outside the global financial system, which was rocked to its very foundations in the period from 2008-2011. Demand surged as the world's central banks began to print money en masse with the onset of Quantitative Easing (QE). Gold is physical, clients can take it home, they can store it outside the global financial market infrastructure. It is also private and not as yet a 'reportable' asset like mainstream financial market instruments.

Prior to 2008 most central banks had been disposing of physical gold. But since 2008 countries like Russia, Kazakhstan and China have been strong buyers. Rotbart estimated that actual demand is almost three times higher than the pre-2008 levels. As world wealth expands, more and more gold is being bought for jewellery and for smaller, retail investments. Demand is expected to remain robust.

The attendees also learned that gold is liquid and that the global gold market logistics and infrastructure are highly professional today. And they heard how they can work with firms such as Rotbart's to bring value and security to their Asian HNWI clients while sharing fees with the firm.

THE DISCUSSION BEGAN WITH guests looking broadly at the role of advice and asset management, to set the scene for the portfolio allocation. "The perspective of an advisory person is very different from an asset manager," said one expert. "The asset manager manages and that is not our core expertise as advisers; we talk to wealthy clients about the infrastructure of their families, how they actually plan and design some structures to hold their assets and how to organise vital matters such as succession planning. Families that are wealthy tend to have a lot of interests around the world, so there are tax issues that come up everywhere."

Another guest explained that as an adviser his firm tries not to compete with the asset managers, but to work out how those assets should be put into a structure that is tax effective and family efficient, and how that structure should be maintained during the life of the patriarch or matriarch.

Don't prevaricate

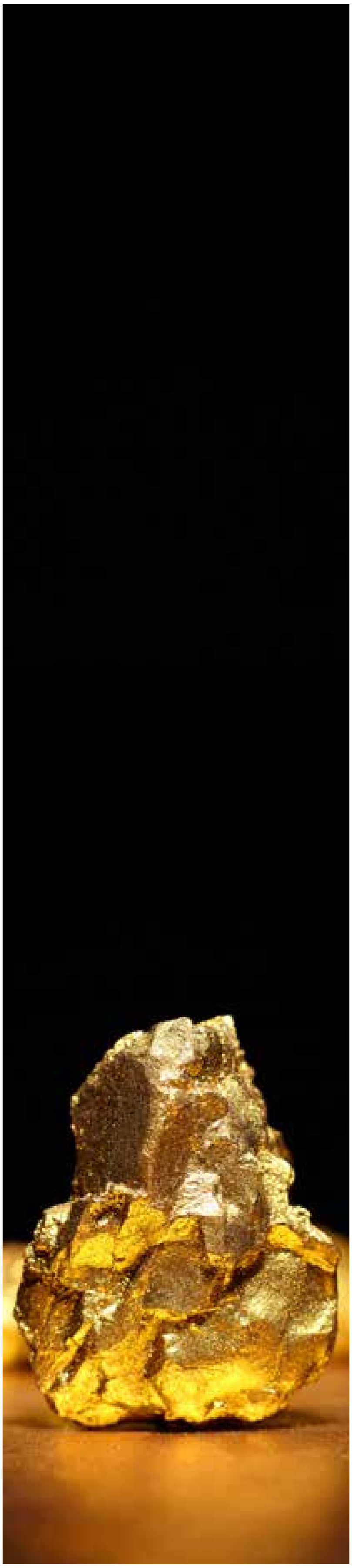
"One of the simplest ways a client can destroy wealth is not do anything," he added. "A typical conversation might be to ask them what happens if they leave their assets to their children, and what if then there is a nasty divorce and their ex-wives or ex-husbands walk away with half their assets. That focuses their attention on the need for planning and action."

"Or," he continued, "we might ask them about their own situation, for example, what would happen if they were seriously unwell and their assets and the businesses needed to pass to the children. When faced with that they are likely to say that will all be fine. However, if we then sit down with those children we realise that they do not want to run the business and that they might not be so easy going amongst themselves. The result can be total disarray."

A bird's eye view

Another issue discussed was that families often have a lack of complete knowledge of the family's wealth. "That is indeed a real problem," said one attendee, "and we so often see this when someone passes away; information is often very difficult to assemble. For example, people have bank accounts and many assets that other family members do not even know of. A first step early

Hubbis -Joshua Rotbart Roundtable in Hong Kong



on, well before any problems arise, is, therefore, an inventory because you cannot plan effectively without a full perspective on the wealth. With a wealthy family whose assets are dotted around the globe, cannot rely on information held inside only one person's head."

Another expert told the vignette of a Malaysian family who learned after a patriarch's passing of 3000 acres of land. "The government wrote and said if it is not developed there could be action taken, but the family did not even know the land existed. Lack of succession planning is a problem but also asking clients to consider a trust or other structures in some remote offshore jurisdiction is often a tough discussion with

JOSHUA ROTBART
J. Rotbart & Co.

about these 'soft' issues straight away. The hardest thing is making them understand they really have issues, so we oftentimes need to guide them to this type of discus-

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someone who has spent their whole life building and controlling. In fact, we find that more and more people want to retain control, but of course, there are numerous impediments to that in a properly structured and valid, arms' length structuring."

He advised that the first step might be to start with an asset manager, then the second stage might be tax planning, especially for families with assets around the globe, then perhaps with the additional focus layered on from a tax consultant. "That process helps these types of 'softer' discussions on planning take place more readily," he observed. "The reality is that nobody goes to an adviser just to start talking

sion and then educate them."

One attendee said that ideally, he would like the client to have just one private bank and one banker who is able to see the whole picture of a client's wealth and advise across the broadest range of products and solutions. "But hardly any clients see it that way," he said, "as generally, they do not want one bank to know everything, or sometimes it is because each bank excels in different areas. Another problem if a client banks with one bank is how the bank charges for its services when the client might feel a sense of entitlement, that he has given the bank his wealth to manage so incremental fees for this and that are not acceptable."

Storing value

While the discussion was private and off-the-record, Joshua Rotbart, CEO of J. Rotbart & Co, was in attendance to highlight to the guests some of the key appeals of gold for their HNWI client portfolio. "We have one very wealthy Asian client, for example, with around USD40 million stored in gold. He says he is immune to all the political, financial and geopolitical vagaries of the world. Honestly, what other assets could he buy that would give him this real sense of security?"

Rotbart referred back to the global financial crisis that began in 2008, after which numerous people around the world lost faith in the established global financial system. "People also lost confidence in the governments that are supposed to protect them against malfunctions in the financial markets," he reported, "with many suddenly realising that a financial investment that is a promise on paper is not always good enough in times of crisis. Remember also Cyprus in 2013 when the government there took over cash deposits, which added to the general concerns about how to protect wealth."

Rotbart highlighted the lack of counterparty risk. "Look back to 2008 when the governments began to print money en masse with the onset of QE," he recalled. "Gold is outside the global financial system, it is physical, you can take it home, it is also private and confidential."

Serving Asia's HNWIs

Rotbart clarified that his company is headquartered in Hong Kong and also operates a Singapore office. He explained that for the last eight years he has been helping Asia's HNWIs to buy, store, transport and sell physical precious metals, especially physical gold. "We emphasise gold's intrinsic value," he explained, "and that it is ideal in times of uncertainty because it is accepted everywhere. We explain that we look at gold not only as a commodity but also as a de facto global currency."

Rotbart also told the assembled guests that gold is also an excellent tool for portfolio diversification; it is considered a very good hedge, because historically when the financial markets fall gold will usually fare better. Most of Rotbart's HNWI clients hold between 5% to 10% of their assets in physical metals, he reported.

Gold, Rotbart opined, is a solid investment in the medium to long-term. "If you look at any asset over five years to 30 years, gold actually outperforms most of them. Looking over the past several decades, it has also beaten emerging markets, bonds and other assets, whilst simultaneously providing a hedge against fluctuations in the foreign exchange rates. All the evidence, therefore, points to the wisdom of putting 5% to 10% of the portfolio in physical gold."

A professional approach

Guests quizzed Rotbart about the technicalities of the gold market and the associated logistics. He firstly advised buying through a reputable dealer and storing in a secure facility, certainly not at home. "Insurance is vital, and you need to be able to authenticate the bullion and sell in certain values, for example with deal ranges from USD40000 to USD1 million. Custody is also essential to ensure the gold comes directly from the refinery and is properly documented. The clients always have title to the gold from the outset of the process, so all these elements are essential."

Custody, he reported, is charged at a percentage of the value. "Typically," he explained, "this is less than 0.5% of the value of the gold each year, which is actually cheaper than custodianship for most of the global financial products in most markets. That includes insurance, by the way."

The gold is always physically moved to the custodial location, with clients receiving a serial number and the photo. They can also arrange to view the gold in person. For those clients that hold a lot of gold, storage in several secure recommended locations also affords geographical diversification.

Rotbart noted that customers also need to know where the vault is. "Where do people feel safe?" he asked. "Whatever the location, whether Singapore, Hong Kong, Switzerland, UK, Canada, we advise clients to put it where they feel comfortable and to also diversify if they have very large holdings."

All the glitters…might not be bullion

Rotbart also highlighted some basic gold market frameworks to keep in mind. The vault must have a top-flight liability policy, especially for transportation. The gold bars should be of London Bullion Market Association standard; the LBMA monitors the gold and silver market globally, also auditing vault operators, refiners, dealers and so forth. This, according to Rotbart, is the LBMA Chain of Integrity, which his firm adheres to for the sake of quality and integrity.

Rotbart explained that each precious metal bar has four identifying marks: the hallmark (from the refiner), the weight, the purity, and the unique serial number. "At any given point owners are able to visit the vault say and check the numbers of their holdings," he explained.

Rotbart also highlighted some issues of storing gold with a bank. Accessibility is a concern, for example, as banks open at set hours, whereas vaults can be accessed at any time. "But the biggest concern is the systemic risk in the event of another financial crisis, for example, banks might hold the gold as ledger entries," he cautioned. "Banks can often make all sorts of excuses for not being able to release or deliver the gold. Whereas through the professional custodial, storage and logistics infrastructure we work within we can easily give clients access to view their gold and deliver it expeditiously to any location."

Working with Asia's wealth management community

Rotbart then explained to the assembled wealth management professionals exactly how his firm and they can mutually benefit from directing HNWI clients towards gold. His team works on a referral programme with a wide variety of wealth management firms that introduce their clients. "We work with the widest range of banks, wealth managers, asset managers, lawyers and others," he reported. "We have arrangements that cover fees both on the transaction side and also on the recurring custody arrangements,

so it is not simply a one-off fee, there is an ongoing relationship. We believe we are generous with the terms of these arrangements."

"Gold has a negative correlation to interest rates and the dollar, so we are in a weaker phase currently. As soon as the dollar strength changes, we will see gold perform differently."

Moreover, he added that his company can provide leverage of roughly up to 75% of the value of the gold. "Bankers and wealth managers can therefore still retain liquidity for their clients to invest in other more mainstream financial products," he explained. "Gold is very safe collateral, it is very liquid, with a clear pricing benchmark and can be sold within minutes."

Plenty of liquidity

Rotbart noted that anyone who thinks physical bullion is not liquid is under a major misapprehension. "Gold price quotes are 'spot' prices that are highly transparent and available 24/7 on both Bloomberg and Reuters, as well as on many other platforms. For example, if a client wants to sell USD20 million of bullion, it can be done within a minute. The largest single transaction we have organised was valued at around USD150 million, for which the trade had to be sub-divided into smaller lots so as not to impact the market price, but the liquidity was plentiful."

Rotbart also reported that the firm has been expanding in the region by building specific relationships with certain banks in specific markets, for example via a recent arrangement in the Philippines with the largest Private bank in the country.

"The value of gold is recognised in the Philippines," he explained, "but they cannot offer gold for local delivery or storage, as it is heavily regulated. So, we are in an arrangement where they bring the clients and we organise the transactions and the offshore custody."

Market demographics

The discussion turned to the interest, or more general lack of, amongst the younger generations in physical gold and precious metals. "The demographics of our clients are mostly male and with an average age of 50," Rotbart told the guests. "The younger generations, especially the Millennials, find it difficult to see the value in the physical asset, especially after a decade of the financial markets performing strongly. Funnily enough, I think the best educational event that could happen is another financial crisis; who knows when that might be, but equities cannot go on forever like this and the US dollar cannot continue going up, there is always a downturn."

The financial market alternatives to physical gold include gold producers and also gold-backed exchange traded funds (ETFs). "We usually tell clients that if their interest in gold is for very short-term trading, then, to be honest, they may be better advised to buy it on the paper market; physical is good when you want to hold it for a sustained period, years not days or weeks."

And Rotbart cautioned that while gold ETFs are useful for short-term trading, most of the ETFs are not fully backed by physical gold. "If there is a sudden rush to redeem those ETFs they will struggle to complete," he warned, "so there would be a halt in trading, possibly for some considerable period of time."

Fiscal responsibilities

A guest asked about the relationship between privacy and tax compliance. "KYC rules in our wealth management industry mean that more and more information must be disclosed by clients at the onboarding or during the relationship," he noted. "There is so much tax reporting these days across borders that anyone going into gold for clandestine activities will surely have problems, sooner or later. Gold accounts might not yet be reportable, but I am sure they will be and there are also the money laundering rules - if you suspect that your customer is not paying tax when they should be you actually have an obligation to report that to the authorities, for example here in Hong Kong."

Another expert noted that the American tax authorities or the US Department of Justice have prosecuted banks who have assisted US clients in converting their funds from the reporting status assets to non-reporting status assets such as gold.

"Under the Common Reporting Standard," he remarked, "we report assets to foreign tax authorities, but only for bank accounts, securities accounts, investments and so forth, but I have no doubt that gold dealers will soon have to start reporting to the tax authorities, who in turn will share this information with other tax authorities. When gold is sold, that is when a possible tax liability will arise."

Rotbart explained that his firm does not work with cash purchasers, only transacting with transparent, auditable bank wires and the firm also asks clients for the source of funds for its own compliance policy. "While gold is private and can be held confidentially, it is up to the individual client to disclose where appropriate to the relevant authorities," he remarked. For the time being as gold is not a financial market, reportable asset, the element of self-regulation holds sway.

Gold in mid-October [2018] was trading at around USD1200, about 10% off its recent year, mid-2016 high of USD1378.50. Meanwhile, the US dollar, in which gold is priced, has appreciated strongly against most global currencies except the Swiss Franc and therefore gold's relative performance converted back to Asian HNWI clients' home currencies, has been considerably stronger.

The discussion closed with a guest asking Rotbart for his views on gold prices. He said his expertise was in the gold market infrastructure, not in price predictions, but that he expected gold to remain weak for the near-term as the dollar remains strong and both equities and interest rates continue to remain firm or are rising.

"Gold has a negative correlation to interest rates and the dollar," he explained, "so we are in a weaker phase currently. As soon as the dollar strength changes, we will see gold perform differently." ■