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PRIVATE BANKER INTERNATIONAL

MONET, MONET, MONET!

WHY ART AND WINE INVESTING ARE BIG DRAWS FOR HNW CLIENTS

FEATURE

François Reyl talks diversification and investment in digital

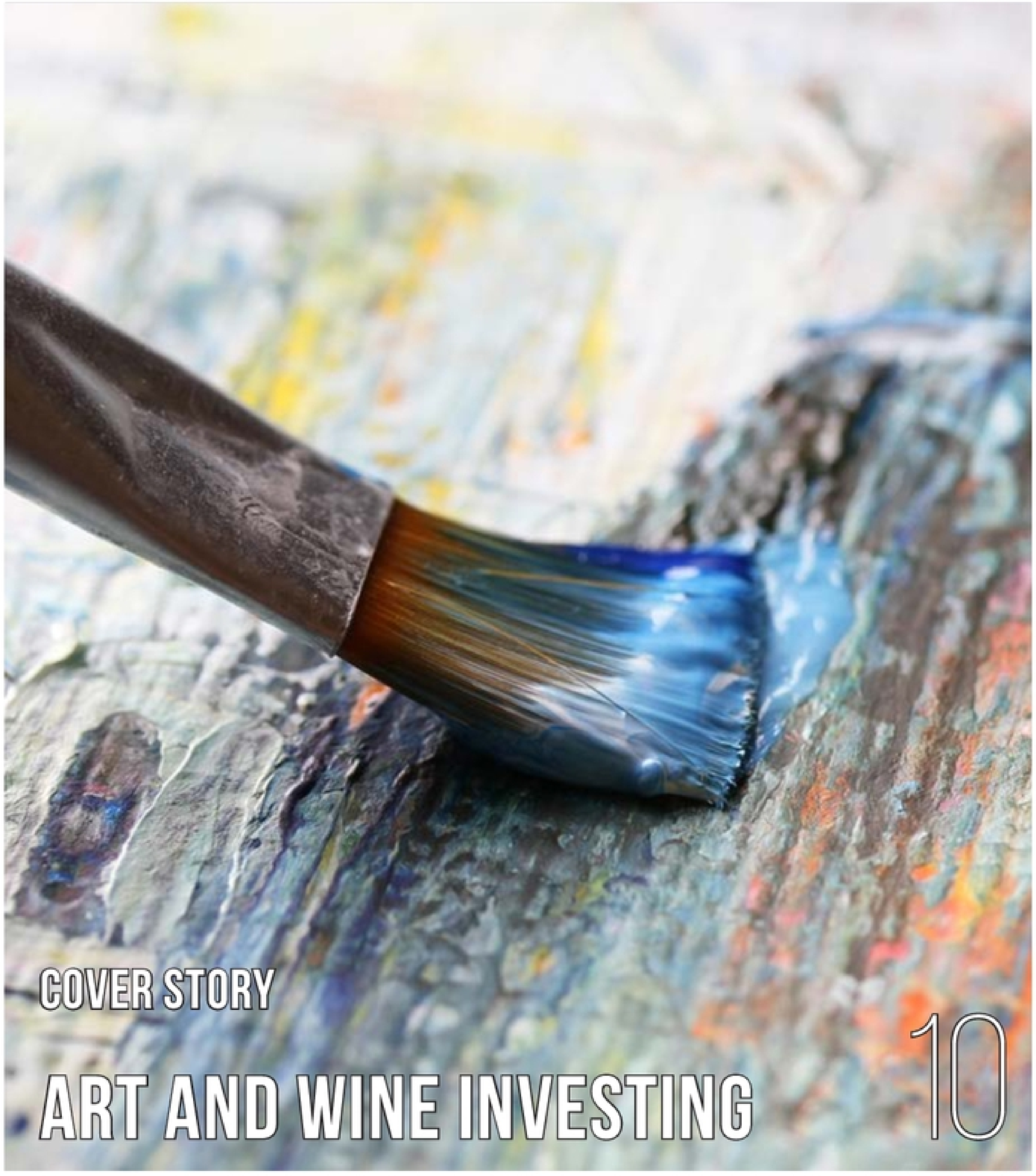
MARKET FOCUS

Hong Kong’s efforts to address a shortage of wealth management talent

INSIGHT

Succession planning and its importance for long-term risk management

THIS MONTH



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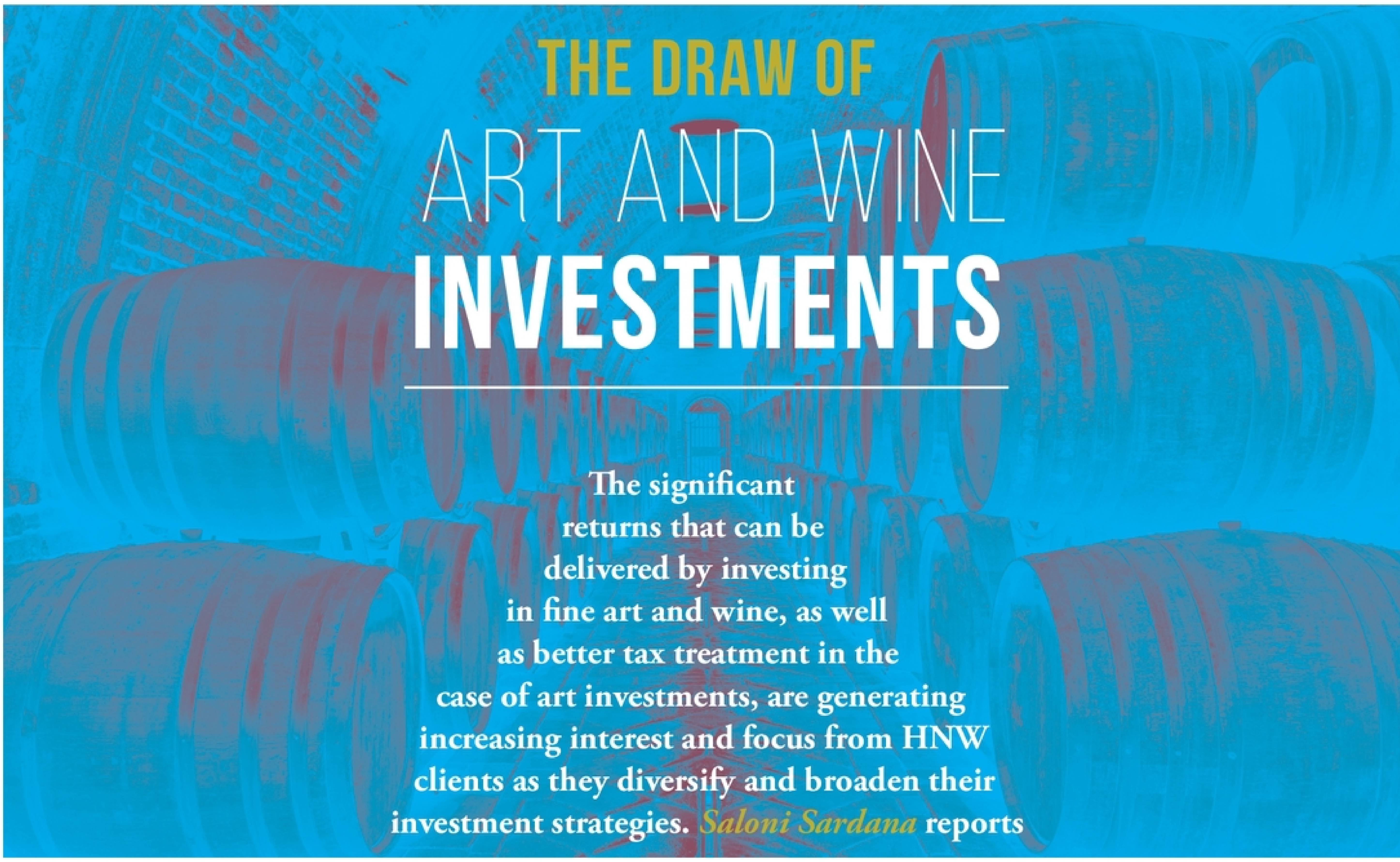


THE DRAW OF ART AND WINE INVESTMENTS

The significant returns that can be delivered by investing in fine art and wine, as well as better tax treatment in the case of art investments, are generating increasing interest and focus from HNW clients as they diversify and broaden their investment strategies. *Saloni Sardana* reports

Research by *Private Banker International* shows an increasing appetite by the HNW community to invest in collectible assets closely aligned to their passions.

Art followed by wine are the most popular categories, with other luxury items such as vintage cars and high-end watches losing traction.

AUCTION SALES

It is not hard to see why private banks are bullish in their outlook for art. Sales in the global art market reached $63.7bn in 2017, up by 12% from 2016, according to research consultancy Arts Economics.

The Knight Frank *Luxury Investment Index* for the fourth quarter of 2017 shows that art made a comeback after lagging behind luxury cars earlier in the year. So what is prompting the renewed interest in art investments?

Xavier Ledru, MD at Swiss private bank Reyl & Cie, says: "We have seen an increase in the volume of transactions above $10m for the past years, which is a fairly recent but significant trend showing that art can be seen not only as a means to hold value, but can also generate significant returns.

Ledru adds: "The multiplication of eight-figure sales can be explained by the growth of a new category of wealthy collectors from Asia – in particular China, the Middle East or Silicon Valley – all chasing the same trophy artworks."

Marco Abele, founder and CEO of Tend, a co-ownership investment platform for precious assets, comments: "Appreciation in art is driven not only by public interest generated by media coverage of the astonishing prices being achieved at auctions, but also by a growing awareness, accessibility and passion for it. That interest and passion is also the case for collectible wine – particularly across Asia."

Lorenzo Sconci, chief art officer and co-founder of Dubai-based gallery ArtWallet, attributes "fiscality" as a main factor in the increasing demand for art.

ART SALES: FAST FACTS

- In May, Amadeo Modigliani's 1917 painting *Nu Couché (Sur le Côté Gauche)* sold for $157.2m at Sotheby's, a New York-based auction house and one of the world's largest brokers of collectibles.
- This followed the record sale of Leonardo da Vinci's *Salavtor Mundi* for $450m in November 2017.

BETTER TAX TREATMENT

Sconci comments: "Those investing in works of art enjoy better tax treatment than those who invest in the equity or real estate markets.

"Individuals who invest in works of art, in fact, practically do not pay taxes on capital gain, and the share of invested assets is not taxed. In the income tax return, neither ownership nor possession of works of art is indicated."

Sconci says 37% of global wealth managers own numerous works of art, adding that the amount invested in art and collectibles was $1.6trn in 2016, with the figure forecast to reach $2.7trn by 2026.

ART PLATFORMS

April 2018 saw innovation in the art investment sector when online art news platform Happening Technologies launched a wealth management product, Artist Profiles, to connect financial investors to players in the art market.

Artist Profiles provides advice on buying and selling, valuations of works, and on risk management. Commenting on the outlook for the art market, Happening Technologies CEO Adeline Pilon says: "We have seen that the art market has become polarised.

"In 2017, the top 10% of HNW

individuals owned 88% of the world's wealth, leaving just 12% of the world's wealth for the remaining 90% the global population."

Pilon continues: "2018 is likely to reinforce this current trend: wealth owners will continue to absorb most of the existing liquidities and so fuel a polarised art market."

Reyl has also innovated in the sector by launching Griffin Art Partners (GAP), an art-lending vehicle that issues notes directly backed by physical pieces of art. Art-backed notes are issued by GAP to refinance itself and provide fixed returns, typically 6-10% per annum over a period of one to three years.

Ledru comments: "GAP lends 30-50% of the estimate of a given art piece or collection, which allows a comfortable buffer for investors in case of default or loss of value."

FINITE SUPPLY

Ledru says: "Although collectibles are sensitive to economic downturns, their supply is fixed while demand for them is growing in the long term." He adds: "We are seeing an increase in requests from private clients and family offices interested in collectibles.

"Art is one of the most appealing collectibles because it is more liquid and accessible than others, such as gems or wine, where passion still plays an important role.

He continues: "The segments on which we have seen amazing returns during recent years are classic cars and luxury watches. However, they may have reached the peak of their cycle. High-end art is traditionally a more resilient collectible which remains attractive."

According to Knight Frank's report, wine has replaced classic cars as the top collectible with prices surging by around 25% in the last year. Recent sales of wines from the cellar of William Koch reached $22m, and a 10-bottle case of 1945 Château Mouton Rothschild sold for $343,000, exceeding the $120,000 estimate, Ledru notes.

According to consultancy Capgemini, HNWI wealth will surpass $100trn by 2025, with around 10% invested in collectibles. Mohammad Kamal Syed, head of global markets at Coutts Private Bank, comments: "Fine wine makes a good investment because there is always a finite supply. Some estates produce only 2,000 cases a year, which might sound a lot, but that's for the entire world. Some produce only 200."

Syed adds: "A great aspect of wine is that even at its most expensive it's a relatively affordable luxury, and that's very rare in today's world."

Adeline Pillon, Happening Technologies

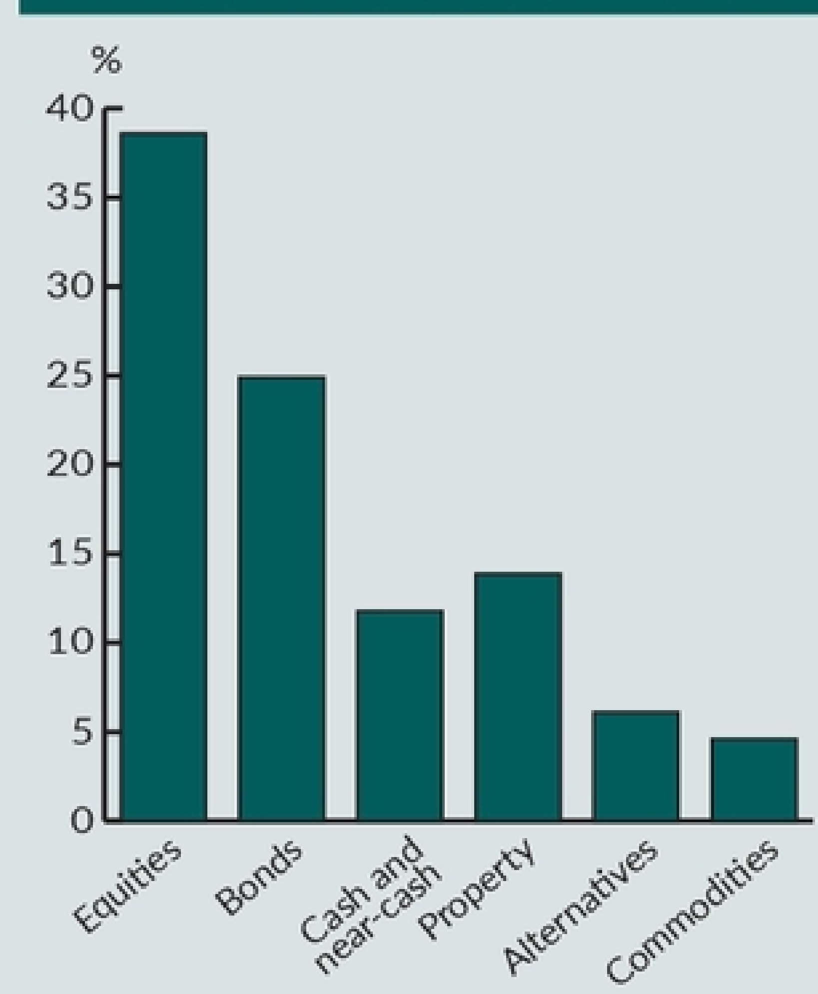
John Godfrey, director and regional centre head at Barclays Wealth and Investment Management, says: "Many see wine as being uncorrelated to global stock markets, and in an environment of geopolitical uncertainty and after such a strong run from equities over the last 10 years, wine is perceived as offering the potential for positive returns, irrespective of what happens elsewhere."

Godfrey adds: "The supply of top wines cannot increase. Supply is limited by production, and once wines are consumed, their scarcity increases while they also typically improve with age – all driving up the value, and ultimately price, all things being equal."

EN PRIMEUR

Godfrey comments: "Buying fine wine *en primeur,* or in bond, means no duty or VAT is payable, resulting in significant savings as a cellar expands.

HNW ASSET ALLOCATION – GLOBAL



Source: GlobalData

"Keeping wine stored professionally is vital. Provenance is equally vital when investors come to sell down the line, as well as maintaining the wine's integrity as it matures."

Godfrey adds: "Trading fine wine is now much easier than before, with a number of sophisticated trading platforms available and a strong selection of quality wine merchants able to advise and assist in broking sales and purchases. Liv-ex also provides more transparency in terms of the price of fine wine and therefore investors are better able to monitor the price and value of their investment."

But he warns: "2013 was a particularly poor year, with values falling sharply as measured by the Liv-ex *100 Fine Wine Index.* The sharp fall in the pound following Brexit also made it more expensive for UK wine investors to purchase *en primeur.*

"Buying *en primeur* is itself risky, as you are buying wine well in advance of it being bottled and hitting the market, and the price could well be lower than the year or two previous when it was bought."

Godfrey says Burgundy – wines made in the Bourgogne region of eastern France – will perform better than Bordeaux wines. Both, however, are major players in the wine world.

"This has been seen to a degree in terms of market share, with top Bordeaux falling to under 70% of the traded market in a recent Liv-ex report, and Burgundy rising to 12.5%. Whatever the trend, the top fine wines are likely to be well bid – whether Romanée-Conti or Pétrus – due to their limited quantities and the difficulty of finding available stock."

Pilon says: "The wine world has developed an entirely global market that is more and more transparent with increasingly educated consumers. Databases are numerous and provide key information and analysis for investments. Transparency has always been a cornerstone for any market, and the wine market seems to be a step ahead of the other collectibles sub-sectors."

In an era where investors are looking to diversify but combine their personal passions, art and wine will thrive. But as with any investment, Godfrey points out a key risk of buying wine in bond is that once the wine is bottled, the price could be a lot lower and investors could lose out.

Another key concern with collectibles is illiquidity, as Ledru warns that clients should "keep a balanced allocation at all times" and in the case of art, focus should be on well-known artists who enjoy stable prices. ■

HONG KONG: GROWING MARKET FACES SHORTAGE OF TALENT

Hong Kong's wealth management industry is working to address a significant talent pool shortage in order to serve a growing client base from the Greater China region, *PBI* has found. *Saloni Sardana* speaks to leading figures to find out more

Hong Kong is a key private banking hub, having $800bn of AuM in bookings according to the Hong Kong-based Private Wealth Management Association (PWMA).

However, a significant talent gap is threatening the market's ability to serve a growing pool of clients. Francis Liu, regional market manager for UHNW Greater China at UBS Global Wealth Management, tells *PBI's Saloni Sardana* in Hong Kong: "Talent is a key challenge. The industry is growing at a rapid pace but there is a very limited pool of talent."

Liu adds: "This especially applies to expertise in this part of the world. The Chinese economy has only started growing since the late 1980s. But [the economy] is still relatively young and it is hard to find seasoned, experienced, young bankers."

TALENT GAP

David Shick, head of private banking, Greater China at Julius Baer, comments: "We have a very limited talent pool in Hong Kong. The clients are growing faster than the number of practitioners in the market."

Shick attributes the industry's talent shortage to graduates having a choice of many other industries that are "equally attractive for employment to them".

In order to bridge this talent shortage, PWMA launched an apprenticeship programme with Hong Kong's monetary authority in 2017. The eight-week programme covering two summers targets students. Apprentices who perform well are offered jobs at the end.

But what else are private banks in Hong Kong doing to address the challenge? UBS Wealth Management, the world's largest private bank and a participant in the PWMA apprenticeship scheme, runs a wealth management associate programme. It recruits people with three to five years of work experience both from within and outside the industry, and trains them for a year and half as client advisers before they can climb the ladder in private banking.

Shick says Julius Baer has a talent identification programme that operates twice a year. He explains: "We try to identify talents within the existing talent pool – people with aspiration to become relationship managers. That is normally our younger employees and those who are at the assistant level."

BILLIONAIRES

Drilling down into the Greater China wealth market, the rising number of billionaires is a key driver for growth in the sector.

According to research published in UBS and PricewaterhouseCoopers' *Billionaires Report* in 2017, China created two new billionaires every week in 2016.

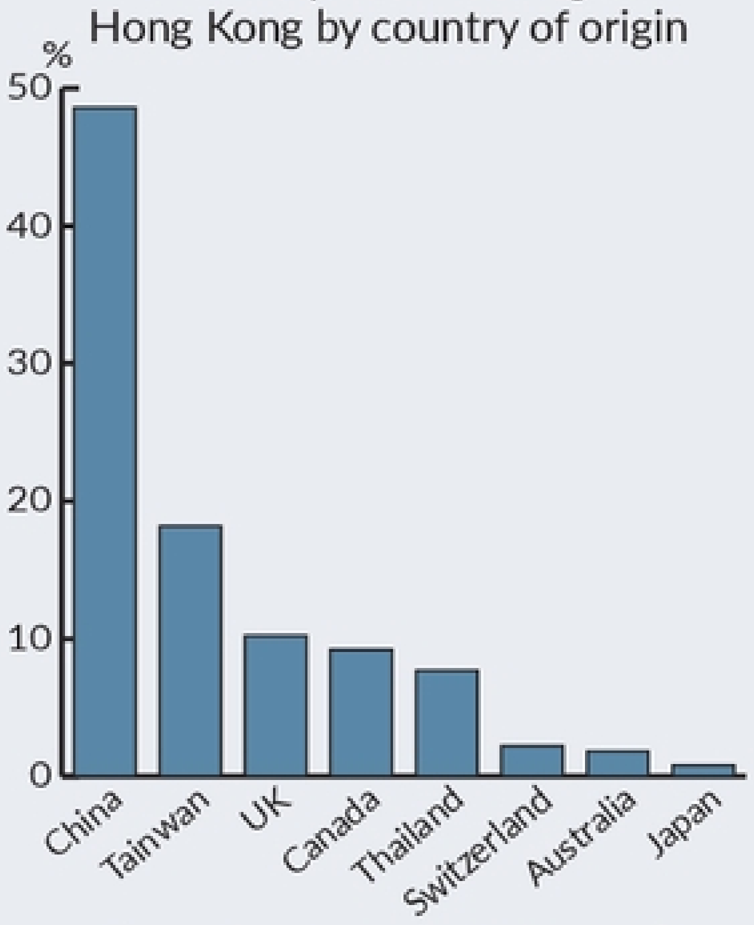
In addition to this, statistics published by Citi Private Bank in March 2018 indicate that the overall number of millionaires rose by 15% compared to the previous year, meaning that one in seven people in Hong Kong are now millionaires.

Liu comments: "You may be rich on paper, but you need to be rich with some sort of valuation. I expect the growth in billionaires to be stable." He continues: "Looking at where we are today in Hong Kong, we would require a lot more uniqueness in terms of exponential growth in the economy to create rapid billionaire growth."

Julius Baer is conducting research called Womenomics as the core focus of its next annual wealth report to better serve female billionaires. The report is expected to be launched this October.

EXPATS' COUNTRIES OF ORIGIN

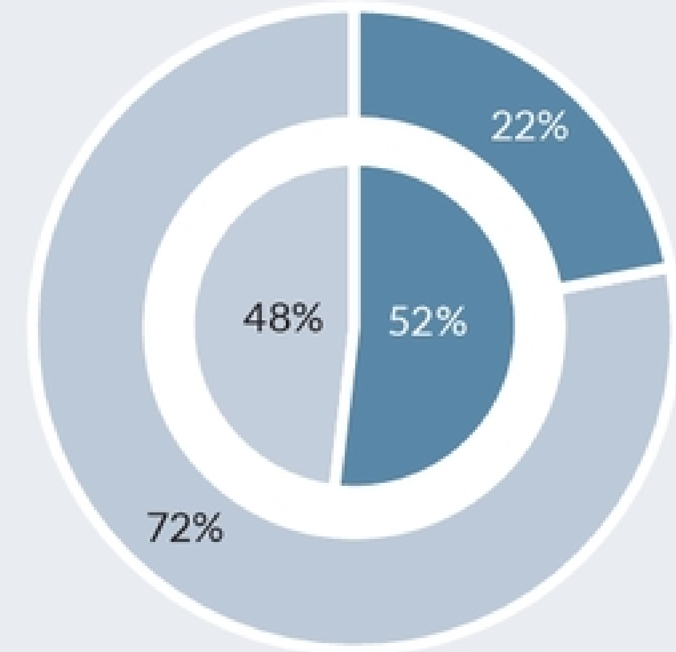
HNW expatriates living in Hong Kong by country of origin



Source: GlobalData

EXPAT POPULATIONS

HNW expatriates as a proportion of the HNW population, Asia-Pacific and Hong Kong



Outer circle: Asia-Pacific
Inner circle: Hong Kong

Source: GlobalData

Shick notes: "This is an area where I think we will take a lead in catering towards female billionaires, and female clients in general."

Liu believes there are "good indications" that the wealth-creation cycle is growing quite strongly. He explains: "The opportunity for us is whether we can capture the amount of exponential growth that we saw in the last three years."

WIDER OUTLOOK

Overall, the wider outlook for Hong Kong's private banking and wealth management industry appears to be positive. For example, UBS forecasts a GDP growth rate of approximately 2-3% in Hong Kong in the coming months.

Shick comments: "As China is the world's second-largest economy, demand for wealth services is growing rapidly. We can see a very strong demand for asset diversification in China."

Liu echoes Shick's view, stating: "For the outlook for Greater China specifically, we are very optimistic that we will continue to see that growth in the market – this is specifically in the tech sector."

While bridging the talent gap may be a key theme in Hong Kong's wealth market, the overall picture remains promising with the rising prominence of billionaires and strong market fundamentals. ■

WINNERS OF THE PBI GREATER CHINA AWARDS 2018

The winners of the prestigious *Private Banker International* Greater China Awards 2018 were announced recently at a luncheon at the Excelsior Hotel in Hong Kong, which brought together Asia-Pacific's leading private banks and wealth management firms.

The winners are:

INSTITUTIONAL AWARDS

Best Private Bank in China: *China Merchants Bank*

Best Private Bank in China (Foreign): *Citi Private Bank*

Best Private Bank in Taiwan: *Taishin Bank*

Best Private Bank in Taiwan (Foreign): *Citi Private Bank*

Best Private Bank in Hong Kong: *HSBC Private Banking*

Best Private Bank in Hong Kong (Foreign): *DBS Private Bank*

SERVICE PROPOSITION AWARDS

Best Family Office Proposition in Greater China: *London & Capital Asia*

Best Offshore Renminbi Offering In Greater China: *HSBC Private Banking*

Best UHNWI Offering in Greater China: *BNP Paribas*

Best Next-Generation Offering In Greater China: *BNP Paribas*

Most Effective Wealth Management Platform in Greater China: *CTBC Bank*

INDIVIDUAL AWARDS

Outstanding Private Banker (Greater China – North Asia): *Amy Wu, DBS Bank*

Outstanding Young Private Bankers (Greater China – North Asia): *Chee Loong Youg, DBS Bank; Kenneth Leung, DBS Bank; Wayne Fu, DBS Bank; Jonathan Goh, DBS Bank; Jynn Ong, DBS Bank; Megan Koo, DBS Bank; Colin Chua, Bank of Singapore*

Rising Star: *Stacey Swee, DBS Bank*

WEALTH MANAGEMENT FINTRACKER

Using five common criteria, the GlobalData FinTrack reports give critical at-a-glance information on the latest developments in the fast-moving world of financial technology

OVAMBA TAKES CROWDFUNDING TO THE NEXT LEVEL

Ovamba, which runs a crowdsourcing platform, is considering expanding to Sudan, Senegal and Ghana. The company already provides investors with access to markets in Cameroon and Côte d'Ivoire, where investments are used by Ovamba to purchase goods and inventory on behalf of SMEs. This approach gives the startup complete control of assets from the start of the funding application through to the final repayment. Predictive psychographic testing in conjunction with transaction market-specific credit underwriting criteria are used to evaluate default risk. Investors can allocate investments across a number of different loans to build a portfolio with different risk profiles. Investments start at €500 ($591) for retail investors and €50,000 for institutional investors, and can be made via Ovamba's Android app.

Is it original?	The concept of crowdsourcing trade financing is not new. However, Ovamba has been able to carve out a niche by bringing together entrepreneurs in need of funding – in a region where access to bank credit remains a challenge – and investors from developed economies looking to diversify their portfolios thorough alternative investments in emerging markets.	✓
Is it long-lasting?	While economic progress in sub-Saharan Africa will lessen demand for alternative forms of credit, this is unlikely to occur in the short term. In many cases, microloans remain the reserve of specialised microfinance institutions, as the business model is less viable for large commercial financial institutions that deem smaller loans to be less profitable.	✓
Is it operationally game-changing for the provider?	Crowdsourced trade financing is Ovamba's only stream of revenue, and the company's survival depends on the success of this venture, making it operationally game-changing for the provider.	✓
Will it significantly improve the user experience?	Investors benefit from geographic and asset diversification, gain access to a market and an asset class traditionally reserved for institutional investors.	✓
Is it market-changing?	As a service, no. Through the provision of funds to entrepreneurs, Ovamba contributes to the economic development of the sub-Saharan region. However, the provider's product will have little impact on the wider financial services sector, given its small scale and the existence of other similar concepts.	✗
Total Score:		**4/5**