THE INSIDER

Issue 14 -December 2023

HP WEALTH MANAGEMENT

Dear business partners,

We all hoped to get a better year in terms of financial markets, compared to 2022. The bar was of course not high, but we can now say that 2023 was definitely a better year, although it was not smooth sailing. Who would have expected at the beginning of the year that the 10 year US Treasury yield would go above 5% in Q4 2023? Most experts had expected a (mild) recession in the US in the course of 2023, but that has now been pushed firmly into 2024.

In terms of geopolitical turmoil, the war in the Ukraine shows no sign of ending, but the situation in the Middle East has substantially deteriorated and now resembles a tinder box. Let's hope it will not explode, as it could have profound ramifications around the globe.

Closer to home, Singapore saw the biggest Money Laundering scandal in its history. Although we don't know for sure whether we have seen the bottom of it, it does look that it's larger than the 1MDB scandal a few years ago. A combination of factors contributed to this, but at the core of it was no doubt greed. When greed kicks in, red flags are ignored. I sincerely hope that this will encourage the authorities to ensure that a level playing field is established. It can't be that someone can buy 20 apartments in one go, even pay slightly above market rate, and apparently without having to answer too many questions. While the focus on the prevention of money laundering rightly was on the Financial Institutions to start with, this now needs to be extended to the real estate sector. It also needs to apply to anybody dealing in luxury items to ensure that money launderers don't abuse these channels.

No doubt this unsavoury episode will lead to tighter regulations imposed on the financial industry. But unless and until other sectors of the industry are equally regulated it will not solve the problem. And we are not even talking about the crypto industry – that's for another day.

2023 was a good year for HP Wealth Management. We remain focused on our core competency of managing money. This has worked well for us, and we believe for our clients. We are pleased with the development of our Private Market activities, which includes the use of our own Variable Capital Company (VCC). We are grateful for the support of all our clients and business partners through the years, and will continue to provide them with our unbiased and independent advice. I wish you and your families all the very best for the upcoming festivities and a good start into a great 2024.

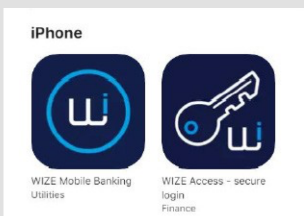
Urs Brutsch
Managing Partner & Founder

One e-banking access, all my Consolidated Net Wealth in one place!

At HP Wealth Management, we believe in providing one simple solution for our clients to access the Consolidated Net Wealth of all their banking relationships as well as non-bankable assets such as properties, real assets, direct investments, loans etc. With our partner https://www.wize.net/, we keep improving the client experience: our clients can access their portfolios and consolidated wealth, even in the case of multi-banks, with one login via the dedicated HPWM "MyWealth" e-banking platform. We are pleased to go one step further and provide the same access via a mobile app.

In case of interest, please contact your relationship manager.

Stephane Schmid
Partner



Debunking myths of EAMs (External Asser Managers) vs Private Banks

Recently, a member posted this on LinkedIn:

"On the other hand, independent wealth managers, such as EAMs and SFOs, can operate fully licensed without the heavy cost burden of human capital governing day-to-day compliance and regulatory controls, which allows for cost efficiency. While these models often emphasize impartial product delivery and client-centric interactions, they serve as intermediaries, providing a level of flexibility and working with custodians to analyse and qualify AML risks and protocols. Subsequently, this has enabled rapid growth across the EAM and SFO sector in recent years, due to the lower cost of regulatory infrastructure required to operate. This scenario may raise concerns about the adequacy of regulatory oversight within the realm of independent models.

Does this create opportunities for money launderers to exploit gaps in the AML framework?"

Accusations that EAMs have a lighter regulation than Private Banks resurface regularly. Fact is that EAMs are subject to exactly the same regulations as banks in Singapore. The MAS expects both the EAM and the custodian bank to perform a strict Know Your Client process, with a thorough documentation of the Source of Wealth (SOW) of the client. The MAS also expects that the EAM performs ongoing controls over transactions to ensure that no money laundering occurs. As such, each KYC and each transaction is monitored by two Financial Institutions: the EAM and the bank. Therefore, one could even argue that clients dealing through EAMs are better monitored than those dealing with the banks "only". To suggest that regulatory arbitrage can be done by using EAMs rather than banks is hence total nonsense.

When it comes to compliance, we have the same regulatory burden. It is therefore no surprise that HP Wealth Management employs two full-time Compliance Officers for a staff strength of currently 29.

We welcome a strong regulator with clear expectations. This is in the best interest of all participants: the end client who takes comfort that his EAM is well supervised and regulated; the banks, who know that they have a trustworthy partner in the EAM, and last but not least, Singapore as a Financial Centre.

The writer of the LinkedIn post is clearly not grasping the level of scrutiny placed on EAMs in Singapore. Of course one can always find a black sheep somewhere, but I believe that the EAM space in Singapore is by and large living up to the high expectations of the regulator.

Urs Brutsch

HP Wealth Management supports a local SMU student

HP Wealth Management is proud to support a local student throughout his four-year course at SMU. We had the chance to welcome Shane Tan to our premises to get to know him better, and to introduce him to HPWM.

Shane is currently doing his Bachelor of Science (Information Systems) at SMU. During our lunch meeting with him we got to know a well-articulate and thoughtful student. We are very pleased to support him financially through the SMU / AIWM bursary program. Our financial contribution helps him to cover part of the tuition fees and ensures that he does not have to take on too many odd jobs. With a bit more financial peace of mind he can focus on his studies. We wish Shane all the very best on his journey.

Meet

Stanley Gan Han Jing

Portfolio Analyst

When did you join HPWM, and what did you do before?

I was at DBS working as an analyst, mainly handling execution of orders, automating reports. So Taylor (an intern at HPWM from 10 years ago) introduced this role to me, and I jumped at the opportunity to join HPWM as the Risk analyst since the company required someone adept at data, automation.

Tell us what you currently do, and what you enjoy most about your job.

So Michael offered me a huge opportunity to become the portfolio analyst 6 months into the risk analyst job and once again grabbed the opportunity. I currently handle the execution of orders, management of the discretionary portfolios, creation of reports and commentaries. I enjoy the challenge that this role throws at me, actively trying to manage 100 things all at once. At the same time, I get to gain valuable knowledge on the markets and portfolio management from my team.

Why did you join HPWM? What did you like, compared to companies you have worked for before?

I like the family setting of the office, where everyone gets to know each other. Unlike the big office setting that I was in previously, where I hardly got to know others outside of my team.

If you could change one thing in HPWM, what would that be?

The pantry! It would be awesome if there was more food and a small area provided for cooking.

Last, but not least: tell us something most of your colleagues don't know about you!

I used to play 7 sports for my hall in university, attaining best sportsman of the year in hall in my third and fourth year of university.

Introducing Variable Capital Companies (VCCs)

What is a VCC?

The Variable Capital Company (VCC) is a new corporate structure for investment funds, and is similar to the open-ended investment company structure in the UK and protected cell company in jurisdictions such as Guernsey or the Cayman Islands.

VCC structures have been used in a variety of ways, from wealth management strategies on behalf of family offices to more traditional funds. VCCs are also not restricted to institutional players with 'large' AUMs – most of the ~ 1,000 VCs registered (as of Q2 23) have small to medium AUMs; half represent private family wealth and the other half evenly divided between hedge funds and private equity i.e., alternatives.

Key Features of a VCC

Privacy

No requirement to disclose:
- The identity of shareholders
- The VCC's constitution
- Financial statements

Distributions

- Possible to redeem shares and pay dividends from capital without shareholder approval i.e., easier entry and exit from investments and addresses 'cash-trap' issues
- No obligations relating to capital maintenance

Ring-Fencing

- Segregated assets and liabilities across sub-funds
- The assets of one sub-fund cannot be used to pay off the debts of another sub-fund
- Each sub-fund has its own autonomous winding up process

Economies of Scale

- The VCC is treated as a single legal entity, where it is possible to have the same Directors and Service Providers for all the sub-funds.
- This should result in cost savings as well as increased economies of scale.

Access to tax treaties and minimum spend for incentives

- Access to more than 80 double taxation agreements
- Minimum spend for 13O and 13U incentives can be spread across sub funds

Multiple Reporting Standards

Flexibility to prepare financial statements using different accounting standards such as SFRS/IRFS/US GAAP

Licensed fund manager requirement

The VCC must appoint a fund management company ("FMC") that is licensed or registered by MAS, or is an exempt financial institution in Singapore

Proof of Substance

Demonstrated via a Singapore-registered office, a Singapore resident company secretary and auditor, and at least one resident director

HPWM Global Opportunities VCC

Earlier this year, HPWM set up its own VCC – HPWM Global Opportunities VCC. We have discussed establishing/established sub-funds (under our VCC umbrella) for clients interested in:

a. Setting up their own dedicated investment vehicle, without going through the process of obtaining a fund management license and negotiating with different parties e.g., lawyers, banks, auditors etc and yet having the flexibility to set terms such as investment policy, return objectives, and constraints.

b. Aggregation of commitments for allocation into Private Markets opportunities, where the average commitment size would be US$3 million to US$5 million. In this instance, the sub-fund pools together smaller commitments of, say US$250,000, from different clients to meet the 'higher' commitment ticket normally required from high-quality managers.

Should you wish to find out more about VCCs, please speak to our Head of Alternatives, Zhao, at zhaoyi.yen@hpwm.sg.

Endowment-Style Investing

More family offices are setting up in Singapore, resulting in increased interest in Endowment-Style Investing. This is an approach typically associated with US university endowment funds.

Endowment funds are investment funds set up for educational and other institutions. In the US, the largest endowment funds are dominated by universities. The largest US university endowment, as of end-fiscal year 2022, was Harvard University at US$50.9 billion (followed by Yale at US$41.4 billion).

What is Endowment-Style Investing?

Endowment-Style Investing is designed to generate sufficient returns to maintain the purchasing power of assets in perpetuity to sustain an institution's operating budget. Key characteristics of this approach are:

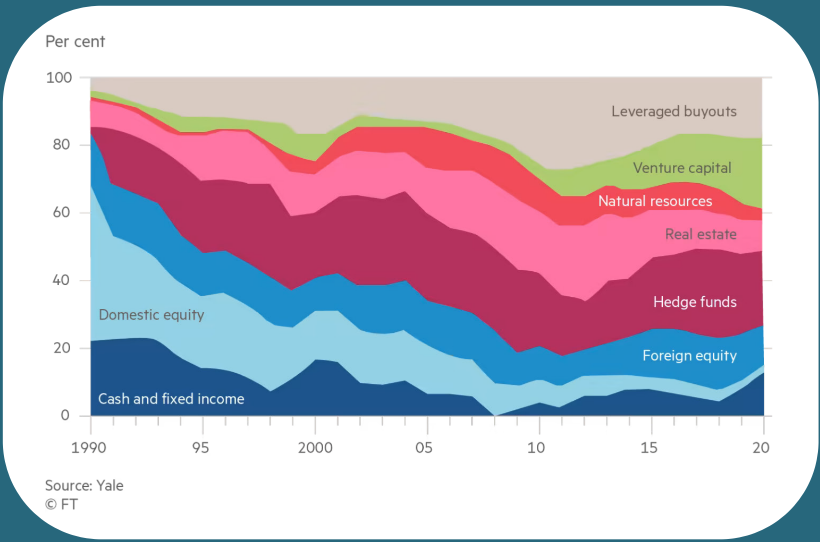
- Diversification via exposure to uncorrelated asset classes e.g., alternatives such as private equity and hedge funds, resulting in lower volatility and consistent returns over the long-term.
- Multi-generational investment horizon, allowing investors to harvest illiquidity premia.

How did Endowment-Style Investing come about?

Nobel Laureate Harry Markowitz showed that, given a desired level of risk, an investor can optimise the expected returns of a portfolio through diversification i.e., Modern Portfolio Theory (MPT). Further research showed that strategic asset allocation (SAA) is the primary driver of a portfolio's long-term performance.

David Swensen, who managed Yale's endowment fund from 1985 to 2020, adapted the MPT philosophy and influenced other universities to diversify their endowments away from traditional asset classes to alternative asset classes. Yale became one of the most successful endowment funds with annualized returns of over 12%

Shift in SAA over time for the Yale Endowment



Source: https://www.ft.com/content/e43825e7-7824-4355-881b-cb11629cd070

Illiquidity and Endowment-Style Investing

Central to Endowment-Style Investing is that illiquidity is a risk premium that should be harvested over a sufficiently long time-horizon, where additional return is obtained from investing in less liquid assets. Endowment-Style Investing is only suitable for investors that have no short-term liquidity needs. Manager selection and access to opportunities are key to success.

Family Offices and Endowment-Style Investing

Encouraged by past performance, family offices have been moving closer to Endowment-Style Investing. The UBS Global Family Office Report 2023 states that the SAA of a global family office is 55% in traditional assets and 45% in alternatives.

HPWM and Endowment-Style Investing

Endowment-Style Investing (with its focus on diversification via illiquid assets) can be beneficial to private individuals that have significant liquidity and a multi-generational mindset. At HPWM, we have been providing advice in private markets for 2 family office clients for the past 7 years. We believe this expertise can be shared with clients that share the philosophy and approach of Endowment-Style Investing.

Michael Foo
CIO & Partner

And in other news from HPWM...

We are also pleased to inform you that employees of HPWM have recently purchased the remaining outstanding Preference Shares. With this, 100% of the shares in HPWM are owned by employees.

We welcome Noredah Binte Abd Aziz to HP Wealth Management. She joins the Operations team as an Operations Officer.

HP Wealth Management (S) Pte Ltd ("HPWM") is an independent wealth management firm founded in 2009 to provide independent and professional investment advice, tailor-made investment management as well as family office services to high-net-worth individuals and families. At HPWM, our focus is on managing client's assets, bankable and non-bankable. We work with experts in the field of finance such as and specialized fund managers. We work with a large network in the field of trust, insurance, corporate providers, lawyers in order to ensure that our clients get the best in class.

PUBLISHER
HP WEALTH MANAGEMENT (S) PTE LTD
137 Telok Ayer Street #08-05, Singapore 068602
T: +65 6603 9790 F: +65 66039791
www.hpwm.sg