

Building a unique wealth management proposition for global citizens

Executive summary

Harmen Overdijk is the founding partner of The Capital Company. Based in Hong Kong, the company is an independent asset management firm offering global as well as Asia-specific investment advisory and related services to international investors. In addition to its core asset management business, the rise of a class of wealthy global citizens and the increasing number of clients with interests in different jurisdictions around the world has meant that the company is now also helping clients consider the various choices and obligations they may have in terms of cross-border tax and estate planning. Overdijk believes that providing such value-added services in terms of helping clients and families build and protect their asset portfolios is an integral part of the wealth management business, and that this is the unique selling point which differentiates his company's offering from the services provided by traditional private banks.



HARMEN OVERDIJK
The Capital Company

HARMEN OVERDIJK CO-FOUNDED THE CAPITAL COMPANY in January 2017 together with partners from The Netherlands, U.S. and Australia. The company was created to provide tax planning and structuring, financial modelling, pension planning, portfolio management, estate planning and insurance services to clients who are considered 'global citizens' – for example, Asian families who have cross-border interests in terms of overseas properties and other investments, or children studying or working in the U.S., U.K. or Europe.

He was recently interviewed by Hubbis CEO Michael Stanhope, and shared his views on his company's evidence-based investment philosophy, why he believes that a fee-based advisory is a good thing and why his company is focussing on non-investment segments of HNW client services.

In the 18 months since its founding, The Capital Company team has grown to include more than 25 people in its Hong Kong office, providing customer servicing as well as advisor and administration support, with new senior advisors coming onboard in the last six months.

Overdijk says he is seeing real growth and increasingly diverse needs in the estate and tax planning and financial modelling sectors, especially in the jurisdictions that Asian investors typically favour – the U.S., U.K., Europe and Australia – and the new members of his team have enabled an expansion of the company's expertise and specific knowledge, in order to better serve its clients.

Evidence-based investment process and philosophy

The core of The Capital Company's investment process and philosophy is evidence-based investing which, Overdijk explains, is already a commonly-accepted practice in the U.S., U.K. and Australia: "It focuses on what has been proven to work in long-term investments, and you apply that to your own investment processes," he says.

Very simply put, the wealth manager or investment advisor uses the best academic research and data available to determine which concepts work best in the long-term.

Overdijk provides an example: "Equities tend to generate high returns and a fixed income in the long term, but you are taking a higher risk. More specifically, you can find a return premium for investing in value stocks versus growth stocks; you can get a premium on small-cap stocks versus the market, and there's data to support that in the long run, you will create a return on your portfolio."

On the other hand, he continues, there is no research to support that being too active in market timing adds much value to clients' portfolios, especially when it creates additional costs that may be difficult to offset. Therefore, his company focuses on being strategic and disciplined, implementing what has actually been proven to work.

"It's not rocket science," he points out. "But the key is in actually implementing it."

How clients are charged

Overdijk says that The Capital Company is a purely fee-based advisory across all the three core services

it provides its clients: financial planning, portfolio management and estate planning.

"We charge a pre-agreed fee for any service we provide, whether for investment portfolio advisory services, or for any other services. And that's the only fee we invoice for," he explains.

"We don't derive any other income or retrocessions – finders' fees, kickbacks or commissions – from other providers, banks or banking platforms."

He notes that this practice is still fairly uncommon in Asia, but it is not a new one in the global financial sector. However, he believes that the Asian market is moving toward the same model.

"The Securities and Futures Commission (SFC) of Hong Kong has already made changes to its codes of conduct for financial advisory service providers, which will come into effect later this year," he says. "The changes state very specifically that if you want to call yourself an independent financial advisor, you have to certify that you do not take any forms of commissions or retrocessions, that you are indeed only charging your client for your services."

He compares this to the billing practices of a law firm, for example, where fees are clearly outlined and invoiced for work done. "And that is the same way we will work in the wealth management industry. I'm not saying it will be cheaper or more expensive, but it will be more transparent."

Focussing on non-investment segments of clients' wealth

While the core of The Capital Company's business remains in asset management, the rise of the global citizen, or clients with interests in different jurisdictions and countries have brought new opportunities for the company to help its clients. Overdijk defines these global citizen clients as traditional American, British or European expatriates in Asia, or wealthy Asian families with interests or investments outside of Asia, typically in the U.S., U.K., or Europe.

His company capitalises on its knowledge of these different markets to help clients, whether in terms of investing, buying properties or even in college or university placements for the children as part of its overall wealth management offering, because these cross-border interests invariably give rise to different tax and estate planning issues.

A typical example, he elucidates, would be a wealthy Asian family with assets in several different countries.



“Say the family has three children, and one child goes to university in the U.S. He or she may decide they like it there, and gets a job and a green card to work there.”

“That means he or she is now a tax resident in the U.S., and that creates new challenges for the estate planning for the whole family. Traditionally, families set up trusts for the children, and it becomes complicated when the beneficiary is a tax resident of the U.S. So there are a lot of ways to think about it, and that is where we help our clients.”

Traditionally, private banks took care of such non-portfolio management matters, but Overdijk says that over the twenty years he has been in the private banking business, he has seen private banks moving away from non-portfolio related advisory. “It is understandable, because these banks are not tax lawyers,” he says. “The banks may have a trust department, but even a trust team within a bank may be reluctant to provide independent estate planning, and definitely reluctant to offer any tax advice.”

So, why does The Capital Company go where many private banks fear to tread? Overdijk believes an integral part of wealth management is helping clients and families build their financial lives. And, on a practical level, he believes that being able to provide other services makes the company more valuable in relation to the services that private banks are now moving away from.

“This is an important way for us to attract new clients. It is difficult to compete purely on performance, costs or portfolio management services. We may be very disciplined in our implementation of our portfolio management services, but we will never claim that we are better than anyone else. So, being able to provide other services that clients require is a

unique selling point that makes us valuable in terms of what private banks can’t provide.”

Priorities for the year ahead

Overdijk says The Capital Company’s main priorities in the coming months include expanding into the U.S. market, and building a wealth management business there. The second priority is finalising the digitalisation of its backbone services for processes such as client onboarding, portfolio management and financial modelling.

Overdijk confirms that the company has already embarked on the process, and hopes to finish this within the next twelve to eighteen months, becoming fully digital in terms of building an investment portal that will offer clients a wider range of portfolio choices where they can pick from a selection of balanced, moderate and conservative investment models.

“We will be able to offer a more traditional asset allocation model, or a more thematic portfolio. For more advisory-minded clients, we can offer discretionary portfolio solutions. We can basically help clients build their own discretionary portfolio, but according a model that works within the SFC’s codes of conduct for fund managers – meaning you invest in model portfolios that are similar for all clients.”

The third priority for company, says Overdijk, is to use some of the knowledge, expertise and unique investment strategies that it now possesses to develop an institutional business, and wrap it into a fund or other structure to sell to other asset managers and private banks. He concludes: “If we continue to implement the structure that we are presently working on, we are confident that we will be managing over USD1 billion in assets in the next twelve to eighteen months.” ■