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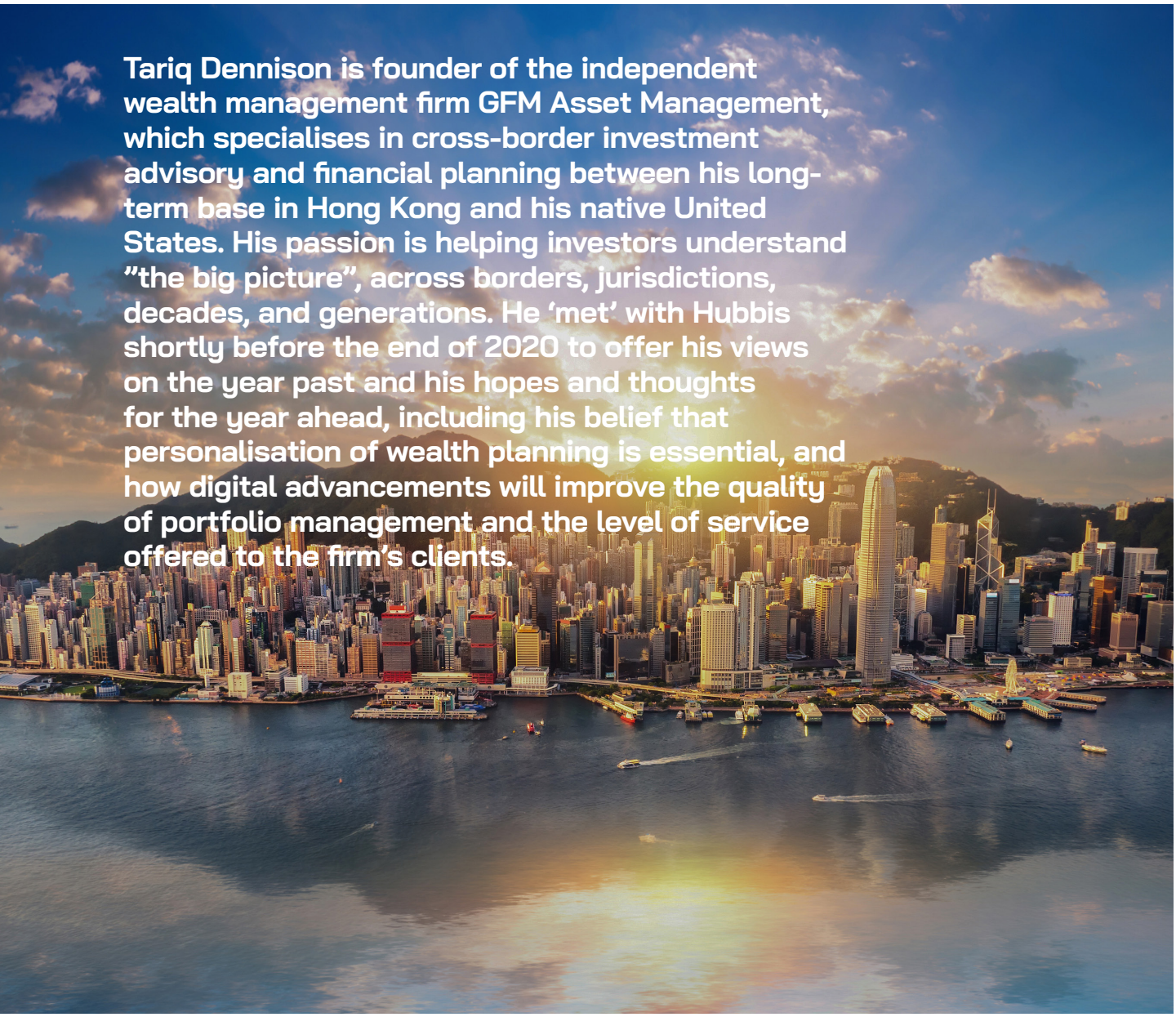
GFM Asset Management's Founder on the Importance of Tailored Solutions and Portfolio



Tariq Dennison is founder of the independent wealth management firm GFM Asset Management, which specialises in cross-border investment advisory and financial planning between his long-term base in Hong Kong and his native United States. His passion is helping investors understand "the big picture", across borders, jurisdictions, decades, and generations. He 'met' with Hubbis shortly before the end of 2020 to offer his views on the year past and his hopes and thoughts for the year ahead, including his belief that personalisation of wealth planning is essential, and how digital advancements will improve the quality of portfolio management and the level of service offered to the firm's clients.

Dennison begins by defining his firm's role as helping drive clients towards saving and investing for their long-term goals by owning the world's highest quality assets as efficiently as possible, with particular expertise in working with cross-border clients and retirement plans in strategies that are US tax-optimised.

He explains that the firm offers managed investment accounts in both the US and Hong Kong, focusing on strategies from savings accumulation to income generation. GFM provides financial planning with basic trust, tax and estate planning, and is a leading Asia-based provider of US IRA and 401(k) retirement plans, 529 college savings plans, as well as Hong Kong ORSO retirement plans.

Hands-on for client portfolios

GFM operates on a "classic triangle" external asset manager (EAM) model where GFM directly manages each client's investment account on independent third-party platforms. "Our investment objectives can generally be divided into two types of programs," Dennison describes. "Accumulation programs are for clients who are still working and saving, many in the "pre high net worth" category, where savings go into the account and investment returns are all re-invested. Our income programs are for accounts that have already accumulated a lump sum of wealth, and where a client is generally in retirement needing to generating income from this lump sum. Income strategies have become more important as more clients enter retirement at a time when a large percentage of the world's bonds have little, no, or even negative yield."

He explains that GFM is fee-only, meaning the firm does not accept any commissions or retrocessions to sell any products, and charge a transparent fee based on one of two models, either a fixed management fee, starting as high as 1.5% per year of the value of the account (which declines as accounts require less service per dollar of assets), or a performance fee, starting at 25% of the profits earned on the account over a high-water mark in lieu of most or all of the fixed fee. The percentage of assets model is better suited to more "classic" wealth management clients where most of the service provided is peripheral to the investment strategy, while the performance fee makes more sense for accounts invested in GFM's proprietary strategies.

Hands off the assets

"Naturally," he adds, "these fees are in addition to custody or execution charges by the platform holding the client's account. GFM holds no custody of client assets, rather, accounts are held directly with third party private banks or online brokerage firms, for example, Interactive Brokers, SwissQuote, and Folio Institutional, the latter of which was acquired by Goldman Sachs in 2020. Third party custody lets us focus on choosing the best investments and giving the best advice, while the custodian provides statements, safekeeping, and fund deposit/withdrawal services."

Objectivity essential

Dennison highlights how GFM's philosophy is aimed at ensuring clients are offered totally objective, best-in-class advice. "We have more than 20 years of international and cross-border experience, we provide straight answers to financial questions in plain English, and most importantly, we focus on making sure financial plans get done and to good effect," he says. "These are simple missions but essential for the busy professional clients we work with and who rely on our advice and expertise."

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Dennison's background led him quite naturally to the creation of GFM in 2014. Prior to GFM, he served in the wealth management divisions of Societe Generale in

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Hong Kong, CIBC in Toronto and London, and at Commerzbank, Bear Stearns and JP Morgan in New York.

He holds a Master's Degree in Financial Engineering from the University of California at Berkeley and has been teaching masters-level Fixed Income and Alternative Investments courses at ESSEC Business School in Singapore. He is also a full member of the Society of Trust and Estate Practitioners (STEP), the author of the book 'Invest Outside the Box', and a frequent speaker on financial matters on RTHK Radio 3's "Money Talk".

He is one of the few Hong Kong based specialists in US retirement plans, pensions, and other tax-sheltered investment plans, including IRA, 401(k), 529, and HSA plans and charitable remainder trusts.

Digital days

Looking at 2020, but leaving aside the obvious communication and business protocol implications of the pandemic, Dennison observes that he is optimistic about the impact of digital on the evolution of the wealth management model in the region.

"We decided to run a paperless practice since day one of opening our practice, both in Hong Kong and in the US," he reports. "In the legal systems we operate under, digital signatures have been recognised as good as paper signatures for the better part of 20 years. For years, real estate agents in the US have already been completing multi-million dollar property transactions on DocuSign, account openings have been 100% online, and last year Florida law started recognising remote witnessing of wills. It has continued to surprise me why Hong Kong seems to be one of the last financial centres to truly advance this practice."

Adopting the remote protocols

He explains that while there are government offices that require wet signatures or original documents for their purposes, but as far as he is aware, there is no legal requirement for many legal documents in many jurisdictions, with few exceptions, to be on paper. "And that is why we saw in 2020 a rapid acceleration of the adoption of DocuSign, Adobe Sign, and other increasingly accepted digital signature protocols."

He considers that the next logical advance to be blockchain verification of digitally signed documents; for the moment he notes that people continue to see blockchain as only relating to cryptocurrencies, but that the implications for documentation and for all types of financial transactions are truly immense.

Regarding the whole evolution of the blockchain and tokenisation, he remarks that there are some interesting solutions emerging for the wealth sector, with BondbloX in Singapore.

"Here in Asia," he notes, "a typical bond trades in USD200,000 denominations, fine for UHNW clients, but less so for HNWIs and not at all for the mass affluent market, wanting to build a simple diversified portfolio of bonds. By tokenising these bonds into USD1,000 lots, this effectively bring US-size bond denominations to Asia. Clearly, they need to pass regulatory hurdles, but these are simple needs and sophisticated yet simple solutions." He adds that as many bond trades are still manually processed, the solution offers not only ease of access but also the speed of execution and settlement.

China's glass is more than half full

Dennison also comments that China's star appears to be burning even brighter, partly due to the relatively successful handling of the pandemic, and partly due to the policies adopted by the government and the sheer demographic dynamics of the country.

"This means that from an independent wealth management viewpoint, there is a bright spot as Hong Kong opens up the borders with the Greater Bay Area; those of us who are here are really looking forward to that Greater China integration. There is a lot of negativity in the Western media about China, but in reality, I see the Mainland handing many things incredibly well, and as to digital, they are already at least five years ahead of Hong Kong already. I believe this can still be a positive for Hong Kong and our wealth management business here."

He also observes that while there has been much criticism, the 'one

country two systems' protocol is still alive and well, at least from the perspective of wealth management.

"Our industry values stability. Wealth managers and clients care about rule of law, property rights, currency convertibility, regulations, movement of capital, the ability to invest, the ability to settle insurance contracts. All these are key elements, and all continue to work well here. With the vast Mainland economy just over the border, I still see Hong Kong as able to capture the best of both worlds. This type of perspective does not seem widely shared in English-language media these days, but I think it's a view that needs to be expressed."

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Connecting the Greater Bay investor

Dennison also observes that Stock Connect and Wealth Management Connect are great positives for the future. It was in late June that The People's Bank of China and the monetary authorities of Hong Kong and Macau announced they would jointly implement the two-way cross-boundary wealth management connect pilot scheme in the Guangdong-Hong Kong-Macao Greater Bay Area.

Under Wealth Management Connect, residents in Hong Kong, Macau and nine cities in Guangdong can carry out cross-boundary investment in wealth management products distributed by banks in the bay area. Welcoming the joint announcement by the three bodies on the initiative, the Hong Kong Special Administrative Region Government said at that time that Wealth Management Connect is an important measure for the bay area's financial development and a milestone in promoting mutual access of financial markets in the area.

Wealth Management Connect will certainly provide more incentives for international financial institutions to invest via Hong Kong to serve the large investor base in bay area cities, which should, the theory goes, in turn, strengthen Hong Kong's role as the international asset and management centre and an important gateway for capital flowing into and out of the Mainland.

"The evolution of the Wealth Management Connect arrangements are the culmination of activity over many years," Dennison explains. "First there was QFII and then RQFII and then you had Stock Connect, the last of which really democratised things for smaller independents firms such as GFM, who weren't big enough to get QFII quotas, and who weren't one of the few Chinese firms set up with RQFII quotas. Now in terms of Wealth Management Connect, if we can get, let's say, our managed account or our fund sleeve on some kind of platform, enabling clients with onshore RMB funds to invest in our strategies and seamlessly repatriate returns, that opens up a wide world of opportunity."

He explains that GFM has so far found a niche serving certain profiles of Mainland-based clients. "Compared with more locally-focused firms, many clients here see my American background, expertise and connections as a huge plus, and appreciate how I've lived and worked overseas, and travelled all across China and Asia by train. This gives me a more global perspective on the different markets, and the temperament to avoid chasing what might be "the hot thing this year". Smaller firms such as ours can have more specialised offerings for clients that they find more valuable than being a big name firm. So, Wealth Connect could definitely help us leverage this success if it is open to firms like ours."

Re-shoring

Another cause for optimism, Dennison reports, is the ongoing

process of what he calls 're-shoring', which is the return of funds that have been placed offshore in jurisdictions that are of late suffering reputational or regulatory disadvantages such as the Cayman Islands, the BVI.

"These out of the way locations now require greater physical substance, more economic substance for the client structures, and that is benefiting onshore or midshore jurisdictions," he observes. "In Hong Kong, for example, there is more of a drive for structures amongst those who are either citizens or resident here, who have a solid economic connection and therefore substance. I think the outlook is rather bearish for many of the offshore markets where clients don't actually have any physical connection, the types of 'jurisdictions-for-hire' centres."

And will blockchain further this trend?

He also offers an aside that essentially blockchain offers another major threat to such offshore jurisdictions. "You can imagine that blockchain technology could supplant much of what Cayman or the BVI have to offer in the decades ahead," he observes, "with all the functions of a true offshore centre available at lightning speed and full transparency on the blockchain, and in the cloud so no physical movement is ever required to complete all transactions, which are verified by the distributed ledger. If you think about it, much of what these offshore jurisdictions offer as far as regulatory, trustee, and administrative and legal services would not be difficult to program into smart contracts on a blockchain. I think it is a matter of time, and it will take time, before these distributed software platforms or cloud-based software platforms could even gain some degree of sovereign or international recognition."

Portfolio formation – a serious business

Dennison is also optimistic that there will henceforth be a more professional and studied approach to portfolio creation, in order to avoid clients building what ends up as what he calls a 'hodgepodge' of a portfolio with no real overriding plan.

"The decisions might have been sound when taken individually, but not devised as part of a proper plan. Software and digital solutions can certainly make curation of portfolios much smarter; this can help consolidate investments more efficiently and ensure there is little or no overlap between funds and assets in the portfolios. Most of the private bank platforms do not have the software available and in play to achieve this, for example, to ensure that an investor seeking exposure to China is accurately allocated to achieve optimal exposure and efficiency."

Building your playlists

He elaborates on this, commenting that with the availability of such a myriad of ETFs today, investors can build what he terms their defined 'playlist' of assets for their portfolios. "It is like the 'Spotify' of wealth management, whereas so many wealth management offerings are stuck in the vinyl age, not even having moved on to the CD era. But what lies ahead is a far more digitised and efficient and highly tailored portfolio curation, and we are certainly

aiming to be at the forefront of that revolution."

Leveraging technology and human expertise

As to 2021, Dennison reports that GFM, in fact, enjoyed healthy growth in both the customer base and the firm's capabilities in 2020, and hopes and expects that will continue in the year ahead.

"Some of our capability enhancement has come through smart investment in digital processes and solutions," he explains, "and in fact, we sometimes call ourselves a 'cyborg' advisor, and we are certainly proud of our use of technology. However, at the end of the day, we are a firm offering human-delivered skills and advice to our clients, so it is important to note that we see digital as an enhancer and enabler, not as the end result."

Diversifying the proposition

He adds that if progress is indeed made in 2021, the firm plans to hire more people with different types of expertise, because thus far GFM's expertise has really been the US, Greater China, and to some extent the UK and Australia, while demand amongst clients is growing for expertise on Europe, Australia, New Zealand and other markets, including sub-sectors such as technology in China."

He concludes the discussion with a comment that one of his concerns about 2020 was that a major casualty of the year had been the lack of common sense. "Sadly, we have seen how many of the reactions to this pandemic have not really been driven by what actually works, what would actually reduce the number of cases, but rather, I fear, a drive to show that governments are doing something, whether or not it's actually something that has any effect."

Greater clarity ahead...

His final word, however, is a reiteration of the theme of optimism, hoping that the rollout of the vaccines around the world will lead to a lifting of the mists and greater clarity on key investment trends and themes for the years ahead. ■