The art of structuring the most overlooked assets

Karen O'Hanlon, Managing Director of First Names Group in Singapore, discussed the fact that as wealth in Asia continues to increase, so do luxury asset investments – creating an immense opportunity for the wealth managers in the region.

Link to Partner Profile
Link to Article on website
Link to Event Homepage
Link to Content Summary page
Link to Photos
Link to Video Highlights

IN HER PRESENTATION, O'HANLON HIGHLIGHTED THE INCREASING PRESENCE of high-value luxuries such as fine art, wine, classic cars and yachts among the assets of ultra-high-net-worth (UHNW) clients. Art, in particular, is on the up. Knight Frank's 2018 Wealth Report revealed that in 2017 the average value of art sold at auction rose by 21%. In China alone the art market grew by 14% last year, according to the Art Basel and UBS Global Art Market Report 2018. Meanwhile, the Deloitte 2017 Art & Finance Report forecasts that UHNW individuals will hold $2.7 trillion in art and collectible wealth by 2026. "These facts and figures show us the scale of the opportunity in front of us today," she asserted. O'Hanlon asked the audience, "How many of your clients have a house full of art, a cellar full of fine wine or a garage full of classic cars that are not structured in any way?" She continued, "A client's luxury assets define who they are and should be protected just as much as their real estate, liquid funds and other investments."

KAREN O'HANLON
First Names Group

Assets need structures

"There is a common misconception that luxury 'real' assets cannot be structured in the way that traditional financial assets can," observed O'Hanlon. "There's therefore a significant opportunity for us to introduce appropriate structures to protect and make the most of these assets." By doing so, wealth practitioners stand to significantly increase assets under management (AUM) and grow their clients' portfolios.

To illustrate how this works, O'Hanlon presented a tree diagram showing a typical structure used to house and leverage alternative assets. A trust, for example, might have two holding companies, each housing different assets. In O'Hanlon's example, one company held an investment portfolio while the other held luxury assets. She highlighted how the illiquid assets could be leveraged to generate funds in order to enhance the value of the investment portfolio.

"As trustees, we at First Names Group work closely with our network of independent legal and tax advisers, specialist insurers, auction houses, freeports and other experts to hold and maximise returns from our clients' luxury assets," she noted.

Protection, succession and a helping hand

Beyond portfolio enhancement, structuring these assets provides clients with multiple other benefits. These include long-term asset protection, facilitation of succession planning and wealth transition, together with comprehensive administrative support including ongoing reporting, accounting and audit as well as arrangements for insurance, safe storage, maintenance, transportation and more.

O'Hanlon highlighted, in particular, the importance of getting the right tax guidance. "Trustees and wealth managers must work closely with tax professionals to ensure clients receive accurate and complete taxation advice. A good example of this is when one luxury asset houses another. An ultra-wealthy client may have a superyacht, which has art and other collectibles decorating its interiors. The yacht then sails through international waters, taking the art assets with it."

"Such a client," she explained, "can very quickly find themselves sailing into hot waters if he, or she, ends up with a customs and excise official coming aboard the yacht and spoiling the holiday because they suspect someone is moving art between jurisdictions in order to avoid fiscal obligations." Notably, First Names Group recently dealt with the European importation of a superyacht to be operated commercially within the EU and worldwide.

As part of this import process, the First Names team also assisted with the importation into the EU of certain artwork on-board the yacht and all associated documentation.

New skills for a new era

O'Hanlon emphasised at this point the need to redefine the role of the trustee. "Asia's wealth managers now need a pragmatic and progressive type of trustee for their clients; one who recognises that the assets of Asian UHNW individuals will become ever more diversified and global, and has the expertise to handle the full spectrum of alternative assets as well as the varied specialists associated with each individual asset class."

O'Hanlon concluded her presentation by urging the wealth managers in attendance at the Asian Wealth Management Forum to work with clients to ensure that their luxury investments are appropriately structured. "We must turn our clients' high-value luxuries from being their most overlooked assets to their most enhanced." ■