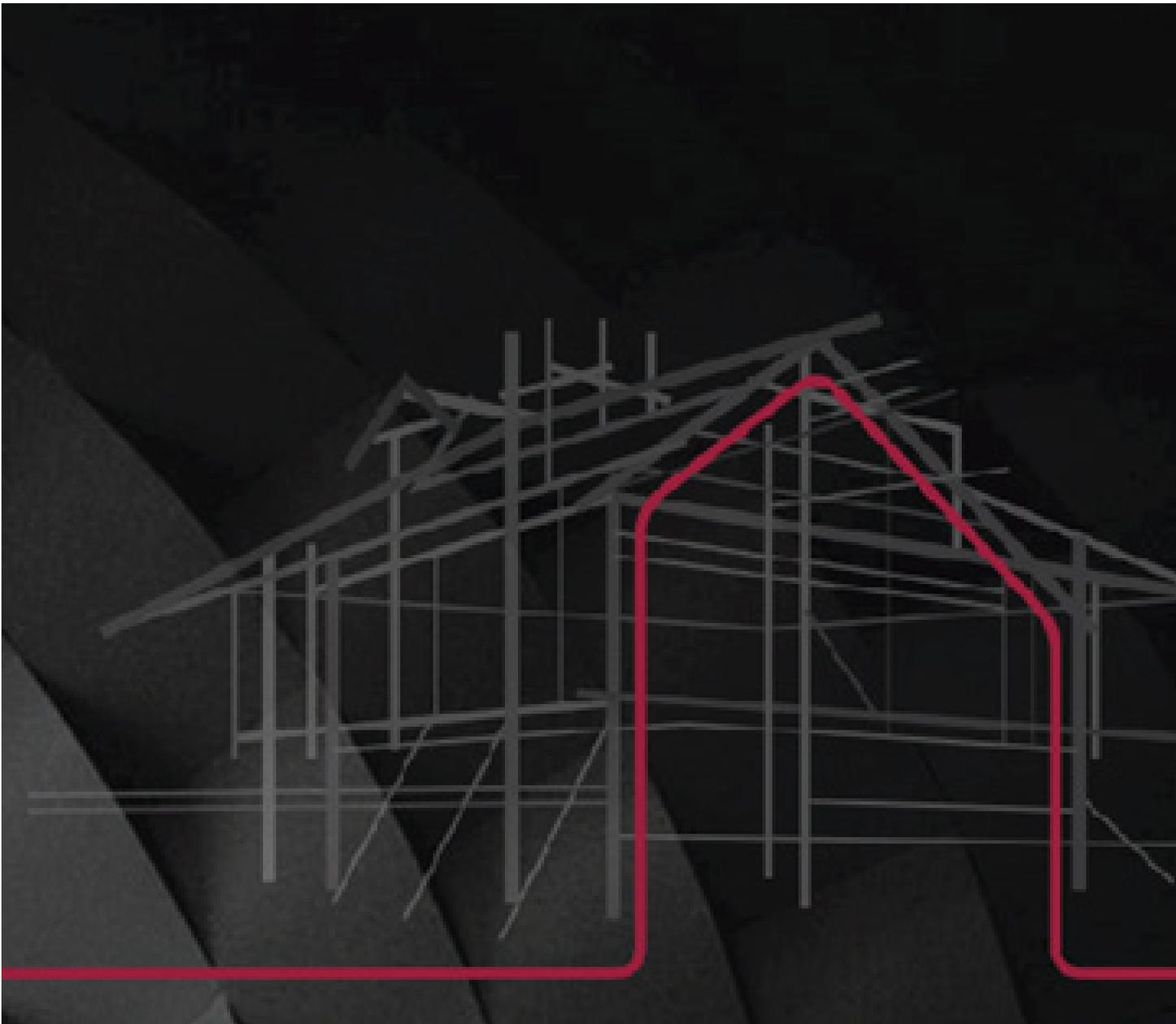


The 'new version' of traditional wealth management

Crossinvest Chief Executive Officer Rohit Bhuta says that the focus and interests of boutique private banks of yesteryear used to be truly aligned with those of their clients, and that somewhere along the way — particularly during the growth of the wealth management industry in Asia — that original proposition has been compromised.

Executive Summary

Crossinvest (Asia) CEO Rohit Bhuta speaks to Hubbis about how his firm takes a unique, portfolio-based approach in an industry where transactional, product-push approaches have become the norm. He believes that the independent asset management (IAM) space has become quite fragmented since it emerged as a new industry in Asia almost a decade ago, and which has gained prominence only recently. The growth of the Private Wealth industry and its correspondingly bigger cost bases has led to clients' interests being secondary to the need to continually generate revenue. At Crossinvest, Bhuta addresses these issues with a simple, timeless yet rare approach: a proposition that is completely aligned to its clients' best interests, offering complete transparency and integrity, and prioritising clients' interests before profit.



CROSSINVEST CHIEF EXECUTIVE Officer Rohit Bhuta says that the focus and interests of boutique private banks of yesteryear used to be truly aligned with those of their clients, and that somewhere along the way – particularly during the growth of the wealth management industry in Asia – that original proposition has been compromised.

He says the reason for this is that there are now bigger cost bases to feed, and for these organisations to be successful, there is an undeniable need to continually generate revenue. This has meant that in many private banks and wealth management companies, there has been a lean toward a transactional, ‘product-push’ approach.

“Every business exists to be successful, and to generate profits.

This can be accomplished one of two ways: sell a product to the end client, hoping that it would be the right thing for the client, and in doing so, charge a transactional fee *and* receive a commission, kick-back or a retrocession as a reward without disclosing as such to the end client”; Bhuta continues, “OR ensure what is being offered to the client makes complete sense for the client first and foremost and in doing so, ensure that the client is aware of every underlying fee he/she is being charged”. Bhuta adds, “I know which client I would rather be.”

Unfortunately, in the industry that we are operating in today, the “relationship managers” are incentivized on the revenues generated and assets onboarded for the organisation they work for. The need to continually generate revenues can sometimes compromise the advisor / client relationship and lead to a misalignment of interests,” Bhuta says.

“Ultimately the transaction simply becomes a sale. Selling is selling, not necessarily taking into account whether or not it is good for the client.”

Crossinvest, established in Lugano, Switzerland in 1985, is an independent private wealth management company. It was one of the early arrivals on the external asset management (EAM) scene in Asia, having been established in Singapore in 2005. Crossinvest is regulated by the Monetary Authority of Singapore (MAS), and possesses a capital markets and securities license. It is one of the few external asset managers that have been operating for more than ten years. With a current staff headcount of fifteen people in its fast-growing Singapore office,

“Unfortunately, in the industry that we are operating in today, the “relationship managers” are incentivized on the revenues generated and assets onboarded for the organisation they work for.”



GARY TIERNAN (Head of Investments) AND ROHIT BHUTA
Crossinvest



ROHIT BHUTA
Crossinvest

the company offers discretionary management, financial advisory and family office services to a global client list.

Crossinvest prides itself on being a truly independent EAM with a proposition that is completely aligned with that of its clients. The company takes a portfolio-based approach, whether in a discretionary or advisory capacity, in its management of clients' assets, and offers access to listed traditional assets as well as private assets (equity or debt) as well as unique off-market co-investment opportunities, all diligently selected from a diverse range of the investment universe.

"Private wealth management is not rocket science and it has been around for a very long time, but the industry has just made it unnecessarily complicated," Bhuta points out. "At Crossinvest, we continue to follow the timeless principles of investing when managing our client's wealth, ensuring that there is appropriate diversification across asset classes, sectors and geographies, and that client's risks are managed appropriately and diligently."

Holistic, portfolio-based investments

Crossinvest investments are 'holistic and portfolio-based', meaning that each asset or investment recommendation will always be made within context of its impact to the other assets and asset allocations within the client's portfolio. The company focuses on steady growth and capital preservation over the long term.

"In essence, if someone comes to us and says, "I want a 30 per cent return", we will say that it is not us, as we will not play with our clients' money" Bhuta explains, and acknowledges that it may not necessarily be the most sensible thing for a company to tell a client that they can target unreasonable

returns in the first place any way, "but some still do unfortunately".

"Morally, ethically and professionally, we want to do what is best for our clients. That is what we are here to do - we are wealth managers and we manage our clients' money over the long term. "Advising" a client to buy an investment product through which the advisor generates significant commissions is NOT what we do." Bhuta adds, "advising a client to invest into an investment product within an investment portfolio which benefits the client, and where the advisor does not receive a commission, and hence is not compromised, is what we do, is what we believe in, and is what we strongly feel

Getting personal

The biggest priority for Crossinvest has always been not compromising its integrity. Especially having won multiple awards for its offerings and services in recent years, Bhuta believes it is even more important for the company to keep doing what it has always been doing.

The second priority for Crossinvest is educating its clients, and making them aware of the rationales behind the fees they are paying to banks and other wealth advisors. Bhuta says educating clients in understanding what advice is, and what they are actually getting or not getting is only a good thing, because it is only then that the clients actually understand that they are in fact paying, sometimes substantial, undisclosed fees, and this is when the clients actually understand Crossinvest proposition.

The third priority for Crossinvest in the next twelve months is to hire good-quality private wealth advisors and continue the company's growth. For Bhuta, good-quality people are those who "understand the differentiation between advice and sale," because the term 'advice' has become something that is more for the benefit of the bank or relationship manager rather than the client, and he believes that as soon as that advice is compromised, it actually becomes a sale, which does not take into account whether it may be good for the client.

is the catalyst for establishing a trusting long-standing relationship with our clients, this is what differentiates us from the rest of the industry.

How does Crossinvest do that? “We are completely transparent in everything we do. Our investments are portfolio-based, so every investment decision or recommendation that we make for our clients is in context of the portfolio that we manage for them,” he says. “Our focus is on working with and for our

“We don’t react on market moves based on sensationalist twitter announcements.”

clients for the long term. We run unconstrained portfolios and we ensure we have a high conviction in every underlying investment we have made that forms part of the investment portfolio.”

“In other words, we are not tactical or day traders. We don’t follow the volatilities of the market, looking at what’s happened with the market a minute ago, and then react. We are proactive in the way we approach things. We will only react if the fundamentals of the assets that we’ve invested in - or the conviction that we usually have with anything that is within the investment portfolios - change, and our risk management methodology allows us to review these on a daily basis”

Transparency is key

Transparency is also a key factor for Crossinvest in serving its clients, and Bhuta says he welcomes greater accountability

on the part of private banks and other asset managers. “While the concept of transparency is still rather relative in Asia, sooner rather than later, I think the regulators will impose disclosure requirements,” he adds. “Most wealth managers and private banks may have opted not to disclose the amount of fees that the clients have been charged and the amount of fees that they are paying.”

“I would rather be in a situation where, whenever disclosure requirements come in, I can go

to my clients, hand on heart, and say there is nothing hidden, we have been completely transparent, rather than being in a situation where we have to say, “By the way, in the previous year, there were additional fees that was charged that we never told you about.”

There still is a fallacy in Singapore, and perhaps broader Asia, that the clients are not paying a fee for the investment advice they are receiving. I would like every investor client out there to ask their relationship manager two simple questions before investing;

- how much fees, commissions or rebates will you or your organisation receive on the back of my transaction, and
- who is ultimately funding this fee, commission, or rebate.

I would then like these investors to come to Crossinvest and ask us the same questions.

Trends

Bhuta notes that the greatest challenge in the wealth management industry in Asia in the past year has been the return of volatility and instability of the financial marketplace overall in the past year. While banks may welcome this unpredictability, “because they can go out and transact and generate more revenues for themselves,” he says, “the clients are getting increasingly nervous at the unpredictable nature of the market movements on the back of other unrelated macro incidences.” “If you sell today and took profits because the markets dipped, what do you do when the markets have recovered again the very next day?” asks Bhuta.

“We don’t react on market moves based on sensationalist twitter announcements.”

The good thing as a result of this however, he observes, is that the more mature private wealth advisors are realising that they are not able to manage the clients’ wealth in the best manner possible, and that they are invariably placed in certain conflicting situations, so far as the client interests are concerned.

Change can only come about when the players themselves become the proponents of change, Bhuta says, and the realization that change is needed is the first big step.

Another trend Bhuta perceives is that clients themselves are also seeing markets reacting on the forces of global political winds into uncharted territory. He cites the examples of U.S. president Trump’s trade tariff wars, or the uncertainties surrounding Brexit, and notes that clients recognise the need for a wealth advisor who

will work to preserve their assets, rather than take risks.

He says that this is true for clients in Asia, a region where significant wealth is being created, and where the focus is shifting towards long-term preservation and capital growth. However, he laments that there are not too many wealth managers in this region who offer this proposition.

The third trend, Bhuta says, is that while the markets are showing signs of growth and resilience, the dynamic move away from globalisation to far-right populism is leading to certain fundamental shifts affecting the markets. The wealth management industry is likely to be challenged. According to him, clients have three options.

“The first is, keep money in bank deposits and earn next to nothing by way of interest rates, but also know that the funds are safe.”

“The second is to go out and transact and trade as much as possible, on the back of “advice” from relationship managers.”

“Or, thirdly, have all or certain percentage of their wealth invested with professional investment advisors who have the client’s interest at heart at all times, and invest it for the long term with capital preservation and steady growth as their core investment objectives.”

With the instability, Bhuta reiterates that clients are realising that they may not be receiving the kind of advice they should be receiving, and more importantly, they are looking to outsource the investment advisory to professionals such as Crossinvest.

What advice means

Bhuta sees advice in wealth management as the same as any advice that is given in any environment. “When you’re

advising someone, you’re advising someone not for your own benefit, but for someone else’s well-being.”

“Advice means when I’m advising someone on investments, I’m advising for the best outcome for the client, and not for me.”

He believes that this is where the financial advisory industry has

been somewhat compromised, because the word ‘advice’ has been used loosely and interchangeably. “In most circumstances, when relationship managers say to clients, “We’re advising you”, it’s almost always for the benefit of the relationship manager or the organisation they work for.”

Getting personal

Rohit Bhuta worked with the Macquarie Group for over 22 years. He has more than 28 years of experience and knowledge in wealth and asset management and investment and private banking. He studied at Victoria University of Wellington, New Zealand, where he earned his bachelor’s degree in commerce and administration. Thereafter, he moved to London, where he did “a bit of everything, working in bars, in an accounting firm, a bit of auditing here and there,” and then to Sydney, where he joined Macquarie Bank, where he initially worked in finance.

An opportunity arose for him to move to Malaysia with Macquarie in its asset management joint venture with Arab-Malaysian Bank Berhad (now AmBank). The move was for him to effect “change management”, which according to Bhuta, was the “buzzword of the 90s”, and he has never looked back, turning away from the accounting world to “bigger, broader and better things.” An illustrious career followed, taking him to South Africa, Hong Kong and India, before he left Macquarie in 2015 to join Crossinvest.

Bhuta was born in Fiji and moved to Wellington, New Zealand to complete high school and continue with his further studies. Even though going from the balmy tropics to wet and windy Wellington was a bit of a culture shock for him at the time, Bhuta says he grew to love Wellington. He considers both Australia and New Zealand as home, and is sometimes conflicted when they play each other in any sport.

He is married with three sons, aged 18, 17 and nine, with whom he loves to spend recapturing lost time, making up for the years he spent travelling when “he was never at home”.

Besides travel, which he enjoys these days with his family, Bhuta is a passionate rugby and football fan, enjoying outings to pubs with mates and, for a while at least, get to “just become a rugby larrikin, and waiting for the day when Spurs relive their glory days again.”

He concludes, “For me, as soon as that’s compromised, then it’s not advice, it’s simply a sale.”

Priorities

Bhuta says that his biggest priority has always been to establish a private wealth business that becomes the benchmark of excellence. He emphasises that while the industry awards that Crossinvest has won over the years serve as endorsement of what it is they are trying to do, there is still

In order to do this, crossinvest has designed an infographic that explains the way the industry works between a transactional fees model (sales model) and a fee paying model (advice model).

Crossinvest is also running a campaign offering accredited investors an opportunity to have their investment portfolios reviewed and evaluated against risk exposures and investment objectives - they refer to this as

“Advice means when I’m advising someone on investments, I’m advising for the best outcome for the client, and not for me.”

a long way to go, “it is all the more important to keep our feet firmly to the ground, and keep doing what we have been doing, without compromise,” he adds.

The second priority for Crossinvest is to serve as a conduit for industry education, which includes education for clients as well as industry participants. Bhuta believes that clients often do not realise the amount of fees that they are paying to banks and other wealth advisors. “So the priority for me at the moment is actually guide and educate our clients to understand what ‘advice’ is, and what it is that they’re not currently getting.

This may be for self-advantageous reasons, Bhuta acknowledges, but adds that there is a method to the madness: “The more ways we educate our clients, the more they understand the proposition that we have.”

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“For Crossinvest, we want to be in a situation where we lead by example, and create a legacy and a benchmark in the wealth management space in Asia.”

The third priority for Crossinvest in the next twelve months is to provide a meaningful platform for sophisticated & good-quality private wealth advisors to join and to help continue the company’s growth. For Bhuta, good-quality people are those who “understand the differentiation between advice and sale.”

Issues with the industry

The external asset management space has seen progress in recent years, albeit at a fairly slow rate. From its emergence as a new industry in Europe and the U.S. around late 2008, it only gained widespread recognition

and prominence around 2013.

Bhuta believes it was back then that there was a “fantastic opportunity” for the industry to coalesce into a whole, and create a truly independent space.

“Unfortunately,” he says, “what’s happened is it has become quite fragmented, and there’s different kinds of models out there,” citing the example of asset managers who take transactional, product-push approaches.

The fragmentation of the industry and the fact that there are so many different models of independent asset management on offer has not necessarily been a negative thing, says Bhuta. If anything, he believes that “we have become victims of our own success.”

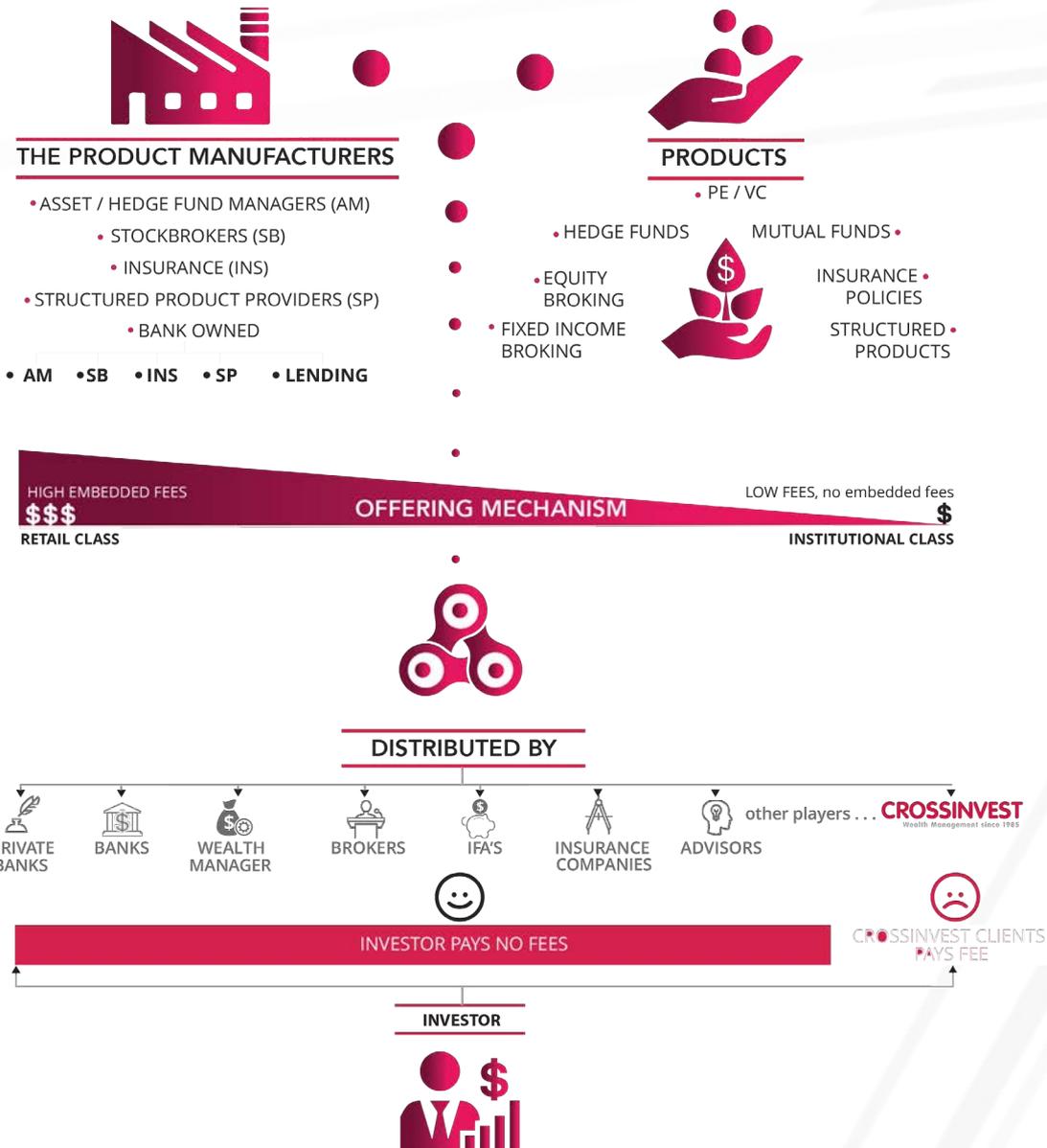
“I think going forward, what the industry needs to do is to come together, and ask ourselves: “What are the things that we, as an industry, would like to achieve and what are the things we should do. And then more importantly, what are the things that we should not do as an industry?”

Bhuta believes in an ideal world, the biggest distinctions of an independent wealth manager or multi-family office from the transactional led industry platforms should be that it is completely transparent, and any advice given should be in the best interests of the client. He adds: “I’m not saying there should not be any fees charged, because every company needs to survive and be profitable. What I am saying is that those fees should be completely disclosed and transparent to the client.” ■

THE FEE CONUNDRUM

PERCEPTION

- ▷ INVESTOR PAYS ZERO INVESTMENT FEES
- ▷ PAYING AN ADVISORY FEE IS AN ADDITIONAL LAYER
- ▷ PAYING AN ADVISORY FEE REDUCES OVERALL INVESTMENT PERFORMANCE



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REALITY

- ▷ INVESTOR PAYS INVESTMENT FEES INDIRECTLY
- ▷ EACH INVESTMENT TRANSACTION GENERATES FEES FOR MANUFACTURER & DISTRIBUTOR THROUGH MULTIPLE FEE LAYERS
- ▷ PAYING ADVISORY FEES SERVES TO REDUCE OVERALL FEES THE INVESTOR ULTIMATELY PAYS, AND THEREFORE POTENTIALLY ENHANCES PERFORMANCE

