Why funds are preferable to trust for wealth transitioning

Can a bespoke managed fund be more appealing to Asian HNW investors for future transitioning of their wealth to younger generations and other family members? Yes, believes Sanjay Guglani, chief investment officer of Silverdale Fund Management.

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GUGLANI HAS BEEN INVESTING and managing wealth for almost three decades, while The Silverdale Group began life in 2000 in Geneva.

The group was instrumental in investing roughly US$4 billion in the Asian economies. In Singapore, Silverdale has a fund management license from Monetary Authority of Singapore.

Silverdale is perhaps best known for the Silverdale Bond Fund, an internally leveraged bond fund, which invests into investment grade bonds and has been achieving returns in what Guglani termed

SANJAY GUGLANI
CIO, Silverdale Funds

the top percentile in the world.

Enter the Bespoke Fund

Silverdale is also known for its Fixed Income Fund, its Indian Fund of Equity Funds, and its Bespoke Fund, which was the core feature of Guglani's November 2 presentation, as it is designed for next generation wealth transfer and has considerable advantages over the more normal vehicles, for example trust structures.

He set the background for the discussion by highlighting the growing wealth around the world. He estimated that today in the Asia Pacific region alone, there are more than US$18 trillion in terms of HNI assets.

"At the current rate the wealth of the Asian billionaires will overtake the wealth of US billionaires in the next four years," he projected. "Every two days there is a new billionaire created in Asia. By 2025 the net wealth of the global high net worth individuals will be close to about $100 trillion."

Guglani said that we are today on the cusp of the biggest wealth transfer humanity has ever seen, with an estimated almost $2.4 trillion of assets being transferred to next generations in the next two decades.

Structures for the next generations

Guglani notes that the next generation is more pragmatic, less emotional, more expressive, and very importantly they are digital natives and profit oriented, with predominantly western education. Gone are the days of excessively high tax rates as in the post WWII era, and hiding wealth.

Looking back, he explains that in the high tax days, the trust became very popular because it helped in multilayering, it helped in transfer of income, transfer of wealth, and of course succession planning. But he argues that since the 2008 global financial crisis, trusts are getting increasingly less popular.

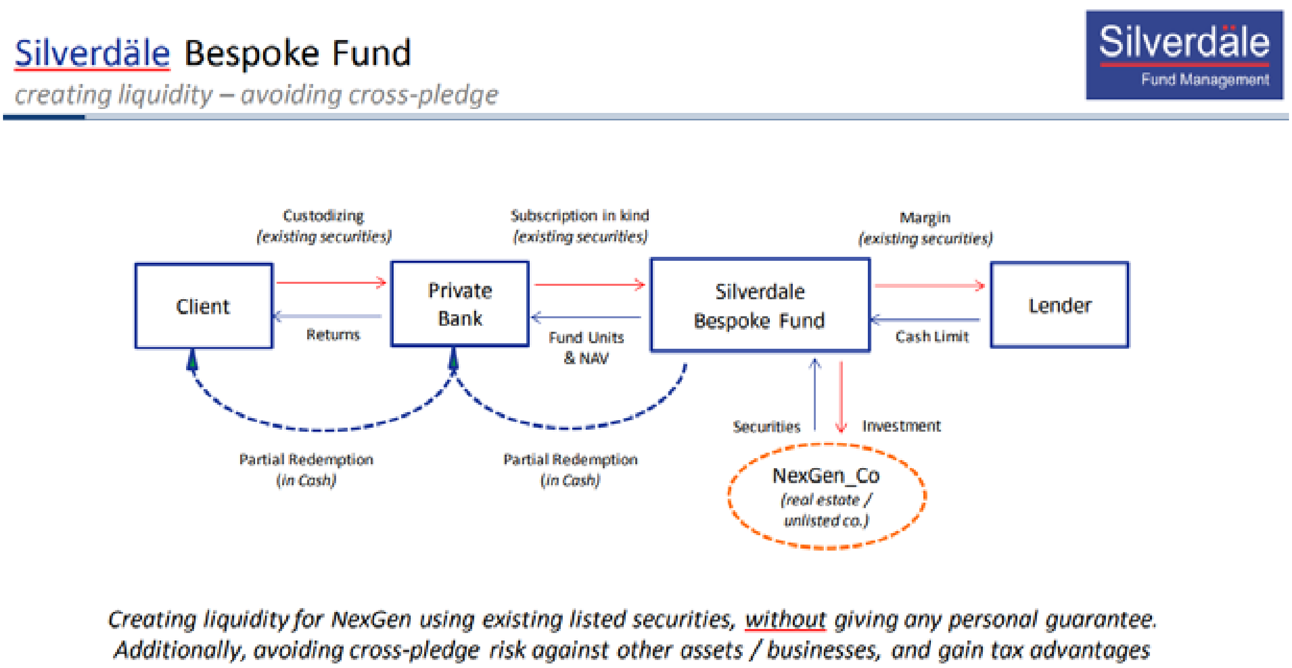
"If it is discretionary trust you cannot get tax benefit," he notes. "If it is nondiscretionary trust, you have no control. And, of course, there is lot of tax disadvantage."

Regulatory clampdown favours funds

As today there is such a huge emphasis on tax transparency, Guglani believes the bespoke fund is becoming increasingly valuable and popular. Bespoke, he explained, means customised for a client. The fund is a regulated investment company.

"Very simply put," he elucidated, "a bespoke fund is a regulated investment company where in the ground rules are laid, the protocols are crystallised, it has a professional fund manager, independent administrator and independent auditors."

And Guglani highlighted the key advantages of a bespoke fund as: the investor remains in absolute control; the investor has the right of veto; the client not only has the right to make the investing decision but importantly the right to remove



the professional fund managers, without cause or compensation.

Tax efficiency

And the biggest advantage of the bespoke fund is that while a trust is not eligible for double taxation treaties, a fund is eligible.

He also highlighted the tax efficiency of the fund, for example in streaming some income in the form of interest into dividend income or capital gains for a better overall tax outcome.

Additionally, he says that typically in a fund structure, costs are lower over an extended period. “And importantly,” he said, “the client is not trusting a particular person to preserve or transfer their wealth.”

Guglani maintains that a fund is a superior structure not only because of control, taxation and lower cost, but also because investors can do interesting things in a fund structure which are not typically possible in a trust structure. For example, borrow without recourse.

And there is no cross-contamination risk. “If a trust was to hold two assets and if one asset goes into distress, the other assets are negatively affected. While in the case of fund, that can be avoided.”

What is mine… can be yours…

But perhaps the most distinct advantage of a fund, Guglani asserts, is the ability to change the beneficiary, whereas in a trust, it is a very cumbersome process. “So,” he says, “for example, you add one more beneficiary, you can very easily transfer the shares or issue new bonus shares or split and do a spin off.”

Guglani referred to a structure the firm has put in place, such as one for a wealthy Scandinavian family with 63 first, second, third generation family members involved. Without going into full detail, Guglani noted that it has been a success because the bespoke fund Silverdale created has clear ground rules, crystallised protocols, a professional manager, independent administrator, independent reporting and independent auditor.

As well as a host of other advantages Guglani referred to earlier in his presentation. For Silverdale, the era of the trust is history and the era of the bespoke fund has already begun. ■

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