

## Alternative investment asset classes: a different kind of fund



When traditional assets such as stocks and bonds face market volatility and uncertainty, some fund managers and family offices have turned towards exploring something more tangible such as art, antique, wine and whisky.

The love for those alternative assets aside, these fund managers and family offices are often attracted by the fact that generally speaking, the management of such assets are not considered regulated activity under Hong Kong's licensing regime, which means the manager of these assets does not need to be licensed by the Hong Kong Securities and Futures Commission.

However, precisely because such assets are often unregulated, many investors would rather invest in alternative investments funds that are managed by a regulated fund manager, so as to ensure that the fund is subject to sound and documented risk controls.

Ultimately, the investment manager will require a licence from the Hong Kong Securities and Futures Commission if its scope of services constitutes a regulated activity in Hong Kong, such as an offering of interest of the fund to investors in the city.

This in fact, underpins the potential of Hong Kong in alternative assets, given its niche as a key common law gateway into mainland China where demand for such classes have remained strong despite today's macroeconomic turbulence. As a joint 2020 research report by global art convention operator Art Basel and UBS noted, China "began as a rounding error in global auction sales in the year 2000" and has since grown to account for over 25% of global sales in 2015, and about a fifth today.

Meanwhile, Knight Frank's 2020 Luxury Investment Index pointed out that the value of rare whisky surged 564% over the past 10 years ending 2019, far outstripping other collectible asset classes - as well as many traditional investment instruments. For instance, the Hang Seng Index grew over 20% in this period. Coming in second on the Index was cars, whose values collectively rose 194% over the same decade.

Another survey by Cerulli Associates said Hong Kong has the highest regional demand by high net worth individuals for alternative asset classes. It also pointed out that the bulk of over 70% of investment managers in Asia-Pacific reported strong interest in such assets. The main challenge for investment managers, it went on, is competition for clients in terms of investment strategies.

Alternative asset funds offer genuine portfolio diversity that seldom dances to the tune of market fluctuations. For more information on formation of such investment funds or the regulatory requirements, feel free to get in touch with the Stephenson Harwood investment funds team.

## Get in touch



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