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OPINION: How offshore SMAs could help 'frustrated' int'l advisors

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The footprint of the financial advisory industry is expanding beyond the borders of traditional onshore markets.

Singapore, Dubai and Miami are at the center of this burgeoning onshore/offshore dynamic. Driving this cross-border model has been domestic-based regulations in Europe, US and China focused on tax evasion (FATCA) and increased transparency (CRS).

On one hand, high net worth and ultra-high net worth investors have sought the protections of these highly regulated offshore markets, and on the other, some investors are starting to repatriate their investments to domestic markets, depending on the geo-political sentiment and pursuing strategies to tailor offshore solutions alongside their domestic-based offerings.

The onshore/offshore dynamic is also wetting appetites among wealth gatekeepers and advisors for non-US based investment products, such as Ucits and private markets funds domiciled in Cayman or the Bahamas. Flexibility is also sought in underlying holdings, thematic investing, custom indexing and access to asset classes typically reserved for institutional investors such as private equity, private credit and hedge funds. Tax advantages can also be realized through lower withholding taxes on dividends, no estate taxes and simplified tax reporting.

Despite the size of the advisory offshore prize, the demand in these domiciles for onshore/offshore platforms that can straddle the needs of the international advisors has historically not been met with a supply of ready-made solutions. Indeed, typically platforms on offer in the international space have catered to only one jurisdiction and were confronted with legacy back-office and securities processing systems that frustrated wealth managers in their objective to cater truly to the needs of their international books of business.

Gaining traction

Products such as individual separately managed accounts (SMAs) and investment advisors like overlay managers have recently started to become viable options for offshore participants that are looking to serve the needs of their international investors. These solutions differ from their transaction-based predecessors by charging a fee based on level of assets rather than a per-trade commission.

Wealth advisors and product executives looking to implement a fee-based program, especially those coming from institutions with established advisory platforms, are seeking flexible, technology-centric solutions with timely 'go-to-market' rollouts. They are looking for experienced partners who understand the nuances of building an advisory program and can adapt it to the needs of their specific market.

In line with these trends, Morgan Stanley and others are reported to be creating managed account offerings for use with Latin American and other offshore clients to enable advisors to deliver third party investment management for offshore and onshore investors. Allied to these developments, top managers like BlackRock have pointed to the potential for fee-based advisory growth, with the former rising by 4.3% and the latter falling by 5.9%.

Going forward, successful players that target the offshore/onshore opportunities prevalent in Miami and the other leading offshore centers will approach the evolving global financial advisory industry with a balance of industry experience and flexibility. No two markets will be alike but there are some core managed money components that will translate across borders and could become enablers of rapid global advisory growth.

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