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# Why China's wealthy move fast in global markets

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Pro-democracy protesters in Hong Kong, clashing with police this week, will ultimately have to answer to mainland Chinese authorities. Source: Getty Images

**LAST weekend I was walking through the pro-democracy "Umbrella Movement" protests in the Mongkok district of Hong Kong when a fist fight broke out in the crowd only metres away.**

The crowd was predominantly Cantonese but ultimately these protesters will have to answer to mainland Chinese authorities who have enforced a court injunction against street barricades.

Incidents such as this on the streets of Hong Kong are set to increase political complexities and the contention of power as China's power expands.

With the year drawing to a close, we are reminded by such events that the world, and particularly Asia, is becoming ever more complex. Realpolitik — power and influence based on practical and not ideological premises — is shaping civil society, politics and wealth accumulation at a more complicated and accelerated pace.

For Australian ultra-high-net-worth (UHNW) investors, this complexity brings direct competition from Asian private wealth, particularly that seen from China.

It is worth noting also that among the first to respond to this new reality are Chinese UHNW investors. They are focusing on new markets — such as Africa — where sophisticated global investors have largely, until now, ignored investment opportunities.

China is now Africa's largest trading partner and an emerging market. State-owned enterprises and privately wealthy individuals are not only working in unison but also crowding out other foreigners, such as Australian listed mining conglomerates, American agribusinesses and European service providers.

It is often forgotten that while Australia was close to signing free trade accords with China, the African continent was already ringed by Chinese free-trade ports, from Angola and Nigeria on the west coast to Kenya on the east.

Nigeria, for instance, now recognised as Africa's largest economy by gross domestic product, has done more with Chinese UHNW investors this year than all other foreign UHNW investors combined.

China may be helping to end African poverty, but the irony is that it has also established a disturbing penchant for all things ivory and appears to care little about the source of diamonds.

In the past 12 months, there has been a sobering of yield expectations by Chinese UHNW individuals, who until recently expected double-digit annualised profits but now are more accepting of sustainable middle-single-digit returns. Now they must search further and wider for good returns.

What this means for Australian UHNW investors is that, in practice, their Chinese peers are divesting. Many have liquidity and assets based in the relatively protected wealth management centres of Hong Kong, Taiwan or Singapore. One way or another, they are divesting from real estate, manufacturing and "land-banking" investments in favour of inflation and income-protected alternative asset allocations.

Chinese nationals with accounts in Hong Kong's leading banks are particularly interested in what have become known as "liquid alternatives", an allocation Australians have not yet embraced at either the institutional or individual wholesale level.

McKinsey & Co, a leading US consultancy, believes that this alternative allocation will become increasingly entrenched in a global investor's portfolio. It regards them as a way to better access consistent, risk-adjusted returns that are uncorrelated to stockmarkets.

Larger, more sophisticated investors reveal a clear bias towards specialist investment managers and alternatives boutiques that offer unique insights and market exposures.

Liquid alternatives are also reshaping product priorities in the hedge fund "liquidity spectrum". This is where sophisticated Australian UHNW investors have been able to counsel their Chinese counterparts and partners in the nuances of these more specialised private-market asset classes.

For example, even though Chinese private wealth has plenty of experience with conventional gearing, the complications of "rehypothecation" — where an intermediary will repledge collateral (in other words they will lend it out again) — can still cause concern.

This is where Australian UHNW investors have been able to provide well-received guidance.

I mentioned last week how poor management of the Australian domestic economy is encouraging our own UHNW investors to increasingly move money offshore. In these circumstances — although there is always rivalry — Australian and Chinese UHNW investors are collaborating and finding commonalities that will prove to be valuable in the years to come.

For fear of cliches, it could well be argued that the Asia-Pacific is becoming closer and more deeply integrated at a faster pace than ever before. What this means for all Australian investment communities heading into next year is that a return of stockmarket volatility, a normalisation of global bond yields and an increasingly competitive regional market will remain demanding.

Properly valuing the importance of liquidity in a portfolio, understanding how stop losses and portfolio protection work in practice and how to identify crowded markets in advance are all skills that become valuable in this increasingly competitive marketplace.

In wealth management, similar challenges exist but, to avoid confusion, when markets run hard it is sensible to appreciate where those complexities lie and ensure we are prepared to face them, come what may.

Larkin Group is a wholesale wealth adviser focusing on high-yielding global investments.

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