

Liquidity Solutions and Investment Opportunity

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As portfolio managers, we are focused on growing and preserving our clients' assets and wealth over the long term. As our clients know from experience, this means investing in strong companies with good returns that are positioned for growth; responding to shifts in the market that preserve assets through times of volatility; and looking for opportunities and strategies that are tax sensitive and responsive to clients' individual needs and goals. This work typically occurs within a client's portfolio and the investments held in their accounts. However, as the fifteen-year regime of low interest rates appears to have come to an end and as interest rates rise and bank lending begins to tighten, the importance of our clients having the flexibility to benefit from private banking and liquidity options becomes more relevant to their financial picture.

In today's environment, clients may increasingly find there is benefit in targeted private banking solutions that help preserve and grow their investments. Even over the past decade, when rates were

lower, liquidity solutions have given our clients the ability to access funds without the need to liquidate securities or incur unnecessary tax consequences to accomplish a near term goal. We expect that as many retail banks tighten lending, short-term liquidity will be harder to access even for our clients whose wealth may be held in illiquid assets such as their investment or business ventures.

Through constant conversation and collaboration with clients, we have been able to identify such opportunities. Below are a few common examples:

Building a Family Residence – Clients who were returning to the US after many years abroad decided to embark on a construction endeavor that would require a sizable investment to launch the project. They had significant assets in their investment portfolios with us, as well as considerable personal income. They contacted us about how to draw funds from the investment account to initiate the project. When we reviewed the investments, we discussed the sizable capital gains that would be incurred if the stocks were sold. This would essentially increase the cost of the project by creating an additional tax burden. We also discussed the future income, which would cover a substantial part of the construction, and the opportunity cost of withdrawing from the market.

At that point, we discussed the potential benefit of the private banking options available to them through the custodian of their investment accounts, Pershing BNY Mellon. After meeting with the private bank, a multi-step solution was implemented. The client accessed a line of credit using the investment accounts as collateral and leaving the appreciated stock untouched. This gave them quick access to funds to begin construction before winter set in. Next, they worked with a banker to establish a construction loan once the project was underway. Ultimately, the loan was converted into a low-rate mortgage.

Thanks to these liquidity options, our client was able to build this new residence without selling investments and without additional tax impact. In the meantime, their investments continued to grow during a very strong market cycle that occurred during the time of construction.

Real Estate Purchase – When a real estate opportunity arises, the window of opportunity can close as quickly as it opened. To help our client to secure a sought-after and time-limited real estate, we moved quickly. The private bank team worked to secure a large enough line of credit within a few days to purchase outright. Considering this occurred when mortgage rates were at historic lows, the client was able to convert that credit line seamlessly into a low-rate mortgage. Not only were they able to secure and renovate their ideal home, but they were also able to take the time to sell their other real estate at a competitive price, keep their invested assets for growth, and benefit from a low-rate mortgage that increased his available funds. The process was so positive that they decided to keep the line of credit linked to their account. Although they have not used it since the real estate transaction, they remain prepared when another opportunity may arise.

Business Venture – A client, with a track record as a leading entrepreneur, had recently sold a business with a multiyear buyout program. At the same time, a new business opportunity emerged. Rather than liquidate investments or draw on personal reserves, they were able to benefit from a private bank solution with a line of credit. Given there was no cost to opening or maintaining the credit line, they were able to access funds for short periods of time as needed without selling assets and reinvesting at short notice, which may carry market risk as well as tax implications. The only cost to the client was reasonable interest on any funds drawn.

From our perspective as portfolio managers, these are a few examples of how targeted liquidity

solutions with our private bank relationships can play an important role in the success of our investment approach and individual strategy for each client.

We believe there will be increasing opportunities to support our clients in their overall financial goals by aligning their investment goals and the unique banking needs that occur over their lifetime of intergenerational investments. The strong partnerships we have with our custodians allow our clients to access private banking solutions which can and will be an important parallel to their investment objectives, particularly in today's environment.

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