Review

Economy

Cross-Border Asset Allocation in High-Net-Worth Individuals

Risk Management and Investment Strategies

Zhe Tan*
Changzhou Senior High School of Jiangsu Province, Changzhou 213004, Jiangsu, China
*: All correspondence should be sent to: Ms. Zhe Tan
Author's Contact: Ms. Zhe Tan, E-mail: scztanzhe@126.com
DOI: https://doi.org/10.15354/si.25.re1197
Funding: No funding source declared.
COI: The author declares no competing interest.
AI Declaration: The author affirms that artificial intelligence did not contribute to the process of preparing the work.

In the context of global economic integration, there is a growing demand for overseas high-quality investments in high-net-worth individuals, and cross-border asset allocation has become an increasingly popular investment practice. This article focuses on analyzing risk management and investment strategies for cross-border asset allocation in high-net-worth individuals. It examines major investment risks, such as the market, tax, political, and legal risks, for this group and underscores the roles of financial derivatives, professional tax planning, and legal advisory services in tackling these risks. It also proposed specific strategies for cross-border asset allocation, including investment diversification, financial initiative implementation, and dynamic portfolio adjustment. The article concludes with pinpointing the new trends in cross-border asset allocation, including investing in the emerging markets and leveraging advances in fintech to optimize investment decision-making.

Keywords: High-Net-Worth Individual; Cross-Border Asset Allocation; Investment Strategy; Risk Management

Science Insights, May 31, 2025; Vol. 46, No. 5, pp.1833-1838.

Introduction

ASSET allocation is a major strategy in investment management, concerning distributing investment funds across different asset classes to balance returns and risks and optimize the outcomes of investment portfolios (Lu, 2024). Cross-border asset allocation is an investment activity in which investors, based on their understanding of risks and expected returns, invest funds in various assets across different countries or territories in well-crafted proportions to achieve optimal risk-adjusted returns (Liu & Ye, 2024). For nations or territories, cross-border asset allocation is beneficial for mitigating the negative impacts of foreign exchange reserve growth and accelerating the internationalization of their currencies. Furthermore, it can assist financial institutions and businesses in enhancing their market valuation and individuals in diversifying investment for asset preservation and appreciation.

Against the backdrop of financial market integration, the needs for internationalized wealth management among high-net-worth individuals (HNWIs) are growing, underscoring the importance of cross-border asset allocation. With the increasingly complex market landscape, particularly the trend of interest rates cut by central banks worldwide, proceeds from traditional fixed-income products have become less ideal than expected. As a result, HNWIs turn to cross-border asset allocation as an option to diversify risks, capture more investment opportunities, and seek capital appreciation. They are actively seeking high-quality overseas assets, such as foreign real estate, stocks, and alternative investments (e.g., private equity, hedge funds) to secure stable wealth growth. At the same time, this demand is driving financial institutions to enhance their global financial service capabilities to provide HNWIs with more diversified and personalized solutions to cross-border asset allocation. This article focuses on analyzing the risks involved with HNWIs' cross-border asset allocation and summarizing common investment strategies in this regard to provide valuable insights for investors.

Risk Management in Cross-Border Asset Allocation

Risks and returns coexist in all investment activities. The complicated global investment environments further intensify investment risks in cross-border asset allocation. It is imperative to develop a thorough understanding of potential risks before implementing this practice.

Market Risk

Currency Exchange Rates

For cross-border asset allocation, exchange rate fluctuations are a significant risk factor. The value of non-USD-denominated assets may fluctuate in correspondence to exchange rate movements. For instance, when a nation's currency appreciates, the value of its HNWIs' overseas assets denominated in USD may decline relatively. Exchange rate changes not only affect short-term investment returns but also long-term asset allocation strategy. Investors can employ financial tools, such as derivatives, to manage exchange rate risk. The foreign exchange forward contract is a common instrument that investors use to hedge against uncertainty associated with exchange rate fluctuations by signing a forward contract with the financial institution. For example, if an investor expects the USD to appreciate in the near future, they can enter into a forward contract to fix the exchange rate at a favorable level for future conversion to avoid potential asset devaluation induced by adverse exchange rate movements. In addition to the forward contract, the currency option is another useful tool for managing the exchange rate risk. It gives investors the right but not the obligation to buy or sell a specified amount of foreign currency at a pre-agreed exchange rate on or before a certain date. Investors can secure this right by paying a premium to protect themselves from potential exchange rate volatility. For instance, if an investor buys the put option and the exchange rate falls, they can exercise the option to sell the foreign currency at the higher agreed-upon rate, thereby limiting their losses. Conversely, if the exchange rate rises, the investor can choose not to exercise the option, losing the premium but still benefiting from the appreciation of their assets.

Interest Rates

Changes in interest rate policy in different countries can also affect the outcomes of cross-border asset allocation. For example, when the U.S. Federal Reserve raises interest rates, the flow of global capital into the U.S. market will increase, leading to lowered asset prices in other countries. Investors can adopt interest rate hedging strategies to address interest rate risk. A common approach is the use of interest rate swap (IRS) contracts. An IRS is a financial derivative that allows two counterparties to exchange payments benchmarked against an interest rate index. The most common IRS is a fixed-for-floating swap, whereby one party will make payments to the other based on an initially agreed-upon fixed rate of interest and receive back payments based on a floating interest rate index. For instance, if an investor holds fixed-rate bonds but expects the interest rate to rise in the future, they can enter into an IRS contract with a financial institution to convert fixed-rate payments into floating-rate payments. In this way, when the interest rate increases, the investor can benefit from the floating-rate-based payments, thereby hedging against the risk of bond price decline.

Tax Risk

Tax Residency Status

The determination of tax residency status is a critical issue in HNWIs' cross-border investment. The definition of tax residency varies in different countries, which may lead to misclassification of investor identities. For instance, some countries use the duration of residence as the determining factor, while others may consider factors such as the source of income. If an investor is incorrectly classified as a tax resident of a particular country, they may face the risk of double taxation or tax compliance issues. To avoid being misclassified in tax residency status determination, investors need to have a thorough understanding of tax residency rules of relevant countries and make informed judgements based on their individual circumstances. Before engaging in cross-border investment, it is advisable for investors to consult professional tax advisors to evaluate their tax residency status. Tax advisors can provide specialist guidance based on investor information, including their place of residence, work location, and asset distribution, helping them circumvent unnecessary tax burdens as a result of misclassification of tax residency.

Coordinated Enforcement of CRS and FATCA

Coordinated enforcement of the Common Reporting Standard (CRS) and the Foreign Account Tax Compliance Act (FATCA) has substantially heightened international exchanges of taxpayer information, posing a significant impact on cross-border asset allocation. CRS requires financial institutions to report non-resident accounts to their local tax authorities, and FATCA mandates that financial institutions disclose information on overseas financial accounts of U.S. taxpayers to the Internal Revenue Service (IRS). With information-sharing mechanisms like this, the tax compliance of cross-border assets has been subjected to stricter scrutiny. To ensure tax compliance of their overseas assets and avoid penalties resulting from insufficient information disclosure, it is important for HNWIs to follow financial institutions' requirements on accurately reporting their tax status and asset information; to keep a close eye on the changes in tax policies across jurisdictions and adjust their asset allocation strategies in a timely manner; and to leverage legitimate tax avoidance strategies to reduce tax burdens of cross-border assets (for example, to take advantage of tax incentives in different countries or to establish an investment entity in tax-friendly regions).

Political and Legal Risks

The uncertainties of political factors may pose negative impacts on HNWIs' cross-border asset allocation. Political risk involves governmental changes, policy shifts, and geopolitical conflicts (Wang, 2024). For example, geopolitical conflicts (such as international tensions, regional disputes, or trade frictions) may dampen cross-border capital flows due to their impacts on interest rates, exchange rates, asset prices, and other aspects (Chen & Long, 2024). Before engaging in cross-border investment, investors should thoroughly examine the political environment, policies, regulations, and geopolitical circumstances of the target country. They should also closely monitor the dynamics of international relations and adjust their investment strategies accordingly.

Legal risk of cross-border asset allocation stems from differences in laws and regulations between countries and territories regarding the protection of the ownership of assets and their transfers, as well as other aspects, such as inheritance, tax, and financial regulation. Some countries may impose strict legal restrictions on the cross-border transfer of certain classes of assets, while others may levy high taxes on inherited property. To ensure the smooth progress of cross-border asset allocation within the legal framework, investors should develop a clear understanding of the associated risks with the assistance of professional legal advisors.

Cross-Border Asset Allocation Strategies

Investment Diversification

The interconnectedness of returns and risks is a basic component of modern financial theory. Rational investors not only pay attention to expected returns but also try to identify and assess investment risks. Investment diversification, as a risk control strategy, is aimed at reducing investment uncertainty while simultaneously keeping the expected return on investment unaltered (Leković, 2018). Diversification of investments involves allocating investments across various asset classes, such as stocks, bonds, real estate, and cash equivalents. It can also be extended for distributing assets across different countries and territories to further enhance the resilience of the investment portfolio.

The significance of investment diversification lies in its role in risk control. First off, it can decouple returns from the performance of a single sector or business to reduce the susceptibility of investment to industrial decline or financial distress of a certain company. Furthermore, it helps maintain the security and stability of an investment portfolio, considering the existence of systematic risks, such as economic cycles, policy changes, and unforeseeable events like natural disasters. Different asset classes often react to these risks in different ways, and some assets within a portfolio may even show negative correlations. When one asset underperforms, another may perform well, thereby creating a hedging effect. Additionally, investment diversification helps hedge against inflation by including assets with value-preserving properties, such as gold or real estate, to preserve the real purchasing power of investments. Regarding returns, investors may not be able to gain the highest return on every individual investment; yet somehow, diversification can guarantee a more stable and predictable stream of returns over the long term by balancing risks and returns. The core tenet of this strategy is "not to put all your eggs in one basket," underlining the necessity of sacrificing certain potential high returns in exchange for the resilience of the portfolio as a whole. Common approaches to investment diversification include:

- *Diversifying Asset Classes*: Different asset classes bear varied investment objectives; for example, stocks for capital appreciation, bonds for regular interest income and capital preservation, real estate for rental income and asset value growth, and cash equivalents for liquidity and safety. It is noteworthy that different asset classes in various countries and territories may perform differently during an economic cycle. For instance, stock markets in some countries may be more volatile, and bond markets in others can be stable. Investors should carefully select suitable asset classes based on their risk tolerance and investment targets.
- *Diversifying Sectors of Investment*: By investing in various sectors, such as technology, healthcare, consumer goods, and financial services, investors can manage portfolio risk by avoiding potential risk from a certain industry and capitalize on growth opportunities across diverse sectors. For investment in international markets, it is essential to conduct in-depth research on the industrial structure of the target country or territory, as well as the market size, growth potential, and competitive landscape of the chosen sectors. Understanding the development status and prospects of an industry in a foreign country is crucial. For example, the European markets, in both EU and non-EU countries, offer promising investment opportunities in industries like automotive, pharmaceuticals, and renewable energy. Meanwhile, Japan provides investors with access to businesses concerning innovative technologies, consumer electronics, and more.
- *Diversifying Investment Horizons*: Investors can select investment instruments with different horizons based on their fund availability and risk tolerance. Short-term investment tools, such as money market funds and short-term bonds, offer higher liquidity and involve lower risk. On the other hand, long-term investment instruments, such as stocks, long-term bonds, and real estate, may have greater potential for appreciation, targeting long-term investment goals. The combination of short-term and long-term investments enables both the liquidity of assets and better portfolio performance.

Financial Initiative Engagement

Engaging in major financial initiatives is also a practice worth trying in cross-border asset allocation. To facilitate Chinese HNWIs' access to overseas investment opportunities and propel the opening-up of domestic financial markets, the Chinese government has introduced a variety of overseas financial investment initiatives, such as the Qualified Domestic Institutional Investor (QDII), Qualified Domestic Limited Partner (QDLP), and Cross-boundary Wealth Management Connect (WMC).

QDII, established in 2006, is a financial vehicle that enables Chinese investors to invest in overseas capital markets via Chinese financial institutions approved by the Chinese government. It serves as an institutional arrangement allowing international investment in Chinese investors in the context that the capital and financial account markets in China have yet to be fully opened up (Mao & Tang, 2023; Ding, 2024). To engage in QDII operations, a Chinese financial entity needs to apply to regulatory authorities (e.g., the China Banking and Insurance Regulatory Commission [CBIRC] or the China Securities Regulatory Commission [CSRC]) for approval; obtain QDII investment quotas from the State Administration of Foreign Exchange (SAFE), with the total quota subject to annual approval by the State Council; and launch QDII products to pool funds from domestic investors for overseas investments (Mao & Tang, 2023; Ding, 2024; Huang, 2018). QDII products are confined to investment in foreign securities such as stocks and bonds. Among them, fund-based QDII products, mostly from publicly offered funds, are the primary channel for overseas investment by Chinese individual investors.

QDLP was first launched as an experimental overseas investment program in Shanghai in 2012 and subsequently expanded to 10 pilot regions. Although it has a smaller market size and is less mature than QDII, the program is open to a broader spectrum of financial institutions, including foreign ones, and allows a broader investment scope (spanning offshore non-listed equities, securities, commodities, etc.), making it a more versatile investment channel. Additionally, QDLP is more suitable for Chinese HNWIs as it can raise funds from qualified investors through private placements, which means it has higher investment thresholds and involves investors with relatively greater financial power and risk tolerance (Wang, 2018). Furthermore, it is noteworthy that policies vary across QDLP pilot regions in terms of investment quotas, investment categories, capital inflow and outflow management, investor qualification criteria, etc. Hence, in selecting QDLP products, investors need to conduct thorough comparisons of regulations in different pilot regions to ensure compliance with local legal requirements.

In addition, the Hong Kong financial market has attracted increased attention from investors from mainland China. The WMC provides investment opportunities for residents in the Guangdong-Hong Kong-Macao Greater Bay Area. The initiative concerns an investment mechanism that allows investors in the Greater Bay Area to purchase financial products sold by banks across the three jurisdictions through the regional banking systems. The WMC consists of the Northbound Connect (enabling Hong Kong and Macao investors to buy financial products from mainland China) and Southbound Connect (facilitating purchases of Hong Kong's and Macao's financial products by mainland China investors) (Qian, 2021; Guo, 2023). To further promote financial integration within the Greater Bay Area, the Chinese government has worked to optimize the WMC framework, lowering entry thresholds for individual investors, increasing maximum investment quotas, and expanding the range of investment products (Qin, 2024). Compared to QDII and QDLP, the WMC is a more direct and easy-to-access approach to cross-border investment. Investors can purchase financial products from Hong Kong and Macao through online banking platforms or brick-and-mortar branches of banks. Despite the limited reach of the WMC, it still serves as a low-threshold, low-risk outbound investment channel for Chinese investors.

Dynamic Adjustment of Investment

Dynamic adjustment is a crucial strategy in cross-border asset allocation. In the ever-changing financial markets, the prices of assets are in constant fluctuation, being subject to the impact of macroeconomic climate, policy changes, industrial developments, and incidental events. That is why investors may risk missing opportunities of higher returns or even suffering asset depreciation if they stick to a fixed pattern of asset allocation. Maintaining flexibility in asset allocation enables investors to better respond to market uncertainties and optimize the risk-return profile of their asset portfolios. For instance, during market downturns when equity assets like stocks are undervalued, increasing the proportion of equity investments can potentially reap high returns when the market recovers. Conversely, when the market becomes overheated with overvalued equity prices, appropriately reducing exposure to the equity market while increasing the share of more stable assets like bonds and cash can effectively mitigate portfolio risk, avoiding significant capital losses from potential market declines. Additionally, investors can adjust asset allocation across different industries and regions in response to the evolution of market trends to capture emerging market opportunities and investment focuses.

It is important for the investors to bear in mind the following caveats in adjusting investment allocation: (1) Avoid the crowd mentality and overly frequent transactions. Popular market sentiments and short-term market fluctuations may induce irrational decision-making. Investors should ground their assessment of market trends and asset value in thorough research. (2) Consider their own investment goals and risk tolerance to ensure that the risk of adjustment is acceptable. (3) Pay attention to the costs of transactions. Balancing transaction costs and expected returns is needed in the adjustment of the asset portfolio. (4) Respect the market cycles. Developing a full understanding of the complexities and cyclical patterns of the market is crucial for navigating its fluctuations (Ma, 2025).

In summary, the three strategies for cross-border asset allocation are interconnected and mutually complementary. Investment diversification lays the foundation for risk diversification; practicing emerging financial initiatives creates new pathways to the diversification of investments; and dynamic adjustment of investment, grounded in the above two strategies, ensures ongoing adaptation of the investment portfolio to market changes. Together, they form a comprehensive and flexible cross-border asset allocation strategy framework that enables investors to balance risks and returns in complex and volatile financial markets. With the rise of fintech, there are growing experiments with intelligent asset allocation. Many emerging technologies have been leveraged to optimize investment approaches. For instance, artificial intelligence (AI) technology can learn and extract multi-level abstract features from raw financial data, enabling data-driven predictions of target variables such as the return rate and volatility rate. Furthermore, AI showcases great potential to process unstructured financial data, which can empower HNWIs to thoroughly analyze diverse information and optimize decision-making (Wen, 2024).

Conclusion

In the context of complex and changeable international financial markets, HNWIs, in implementing cross-border asset allocation, may encounter various risks, such as market, tax, and political and legal risks. To tackle these risks, investors can adopt financial derivatives, tax planning, legal advisory services, and other means for improving the robustness of their asset portfolios within the global financial horizon. Regarding investment strategies, HNWIs can improve their asset allocation and risk-resistance ability by diversifying asset classes, sectors of investments, and investment horizons; implementing new financial initiatives to broaden investment channels; and dynamically adjusting asset portfolios to adapt to financial market fluctuations and bolster the risk-and-return profile of their portfolios.

Currently, new trends in cross-border asset allocation are emerging. Emerging economies (such as India and Vietnam) will become important investment destinations for HNWIs. Economic growth, technological innovation, and infrastructure upgrading in emerging countries offer investors opportunities for high returns. Yet, these opportunities are often accompanied by substantial political and economic uncertainties, requiring investors to carefully assess and manage associated risks. Moreover, the accelerated advancement of fintech is posing significant impacts on cross-border asset allocation. The application of technologies, such as AI, big data, and blockchain, will markedly improve the efficiency and precision of investment decision making. For instance, big data analytics can process massive amounts of financial data, producing more accurate market forecasts and investment recommendations; blockchain technology can be used to reduce cross-border transaction costs and to enhance the transparency of assets and security of transactions. The popularization of fintech will lead to smarter implementation of cross-border asset allocation, allowing HNWIs to experience more efficient and streamlined investment processes. To sum up, foreseeable are bright prospects for cross-border asset allocation with the rise of emerging markets and advances in fintech.■

Received: February 02, 2025 | Revised: April 05, 2025 | Accepted: May 03, 2025

References

Chen, X. & Long, L. (2024). Geopolitical risks and short-term cross-border capital flows in China: Theoretical and empirical analysis. Studies of International Financial, 2024(03), 39-50. DOI: https://doi.org/10.16475/j.cnki.1006-1029.2024.03.002.

Ding, A. (2024). The new landscape of asset allocation: Trends and strategies. China Bond, 2024(11), 33-38. Available at: https://kns.cnki.net/kcms2/article/abstract?v=qKY3Y0De9e49gy7i5wp9BXjHzLYyUr-g7PLhtoESt3q58XP0Ha0pDgkjuTg3wH7rNheSqalF6RAqhOYgqDripR2dh5fv3uAgTbqzbLmi6Kmq4i80DoG-lKuZa1wlF-9rwICgxxVQt6aADYhKTwuYDBGMsRUWzJU54D2sL0H79MiNZZ3buDtENg==&uniplatform=NZKPT&language=CHS

Guo, Y. (2023). “Cross-boundary Wealth Management Connect”: Innovative financial support for the construction of the Greater Bay Area. China Forex, 2023(20), 54-56. DOI: https://doi.org/10.13539/j.cnki.11-5475/f.2023.20.009.

Huang, Z. (2018). A comparative study of three major overseas investment tools: QDII, QDLP, and QDIE. Financial View (Wealth), 2018(06), 54-55. Available at: https://kns.cnki.net/kcms2/article/abstract?v=qKY3Y0De9e5uBygGPLwx1yfcojrQlElBJW-60BeOmi9JenFXWqGkyiR2YHsglbrfYJ72tA5MpI5Tn8pwkBVTzD8u1k3Zv9eZ_mSQsx0UZw3Hxh5RpNG8IzI-8g_bZjdKvqC7moMOs986yE5mqF_5ep-Yys396jaEdzvv6j0UNy_7t9-RQKUU_Q==&uniplatform=NZKPT&language=CHS

Leković, M. (2018). Investment diversification as a strategy for reducing investment risk. Economic Horizons, 20(02), 169-184. Available at: https://www.researchgate.net/publication/327272612_Investment_diversification_as_a_strategy_for_reducing_investment_risk

Liu, G. & Ye, X. (2024). Geographic attributes of assets, cross-border allocation, and influencing factors. Economic Perspectives, 2024(09), 56-75. Available at: https://kns.cnki.net/kcms2/article/abstract?v=qKY3Y0De9e4SEFMgcI4zkauc070X-owTADOemMJtRvF--AzfxFqdVrj_E8wMmE47nnqdVy5_Fmf8jjDSBXofxpRIECG71tFxmEnxuTpqp6knWgG_jrHBFMixUeZerTfrcYiQP5QSgn7SXXGjt5gg_JjL7Xx4agsYmkdFtfP96p6ZABrlalIrfQ==&uniplatform=NZKPT&language=CHS

Lu, Y. (2024). Asset allocation and investment strategies in financial markets. Business Information, 2024(10), 83-86. Available at: https://kns.cnki.net/kcms2/article/abstract?v=qKY3Y0De9e5TwW8sm8CvgcMNPt3t8tTNtVM2D9olXEQFNH4_1NX1qzaOyqW08qXH9wfQI9QBk03KeHasdqukeNh-jV73Qfir8IHuvvR-fjEMp5MERNjNV7ebRpbvlod7CeYgT0vZOIhrxyBpQiVNPU9yRICPP0NUz9EDVf2hpjsoPLmGJpV0bA==&uniplatform=NZKPT&language=CHS

Ma, L. (2025). Low-risk asset investment in the era of low interest rates. Modern Commercial Banking, 2025(04), 62-65. Available at: https://kns.cnki.net/kcms2/article/abstract?v=qKY3Y0De9e5QyTPER_mienaMJUCqOP99otAaZLwmtSvRBm41jDDRd-xntjzEy1qjj7jvjN86NAWjigvL6wOtMfMEGUv_91KA-dY2DBvFnO-EVJBggsvNRpPXEOCKpA0_uonO3lg_XOUpW6eWB-uW2pb5XAl9KvzfJs2pHoIvG7EEj3VZ3udorg==&uniplatform=NZKPT&language=CHS

Mao, H. & Tang, X. (2023). QDII compliance guidelines for overseas investment in the context of China’s high-level opening up of capital markets. Chinese Lawyer, 2023(11), 58-61. Available at: https://kns.cnki.net/kcms2/article/abstract?v=qKY3Y0De9e7MUAXLq_M23g9Qga5hhGwuL__vIFH9JAq_TRUUxCrjPI380mvM_FMqbGdo-kazJp33H4lcvVkgUIgmNRZKioIjg2jgJjDMmZx7B9It9s-rumnuUmyAQJjprAlvjqWgpu8tgABwLJiDxgOOuN8vx0etQwQc8GDeuWFpgXyTyrxRsA==&uniplatform=NZKPT&language=CHS

Qian, L. (2021, September 18). The expansion of cross-border asset allocation channels. Economic Daily, 2021-09-18. p. 007. DOI: https://doi.org/10.28425/n.cnki.njjrb.2021.006814.

Qin, Y. (2024, July 1). The role of “Cross-boundary Wealth Management Connect” in risk management in asset allocation. China Business Journal, 2024-07-01. p. B02. DOI: https://doi.org/10.38300/n.cnki.nzgjy.2024.001440.

Wang, X. (2024). Cross-border Asset Allocation Strategies and Global Capital Market Integration. Journal of Business and Marketing, 1(03), 121-125. Available at: http://www.stemmpress.com/uploadfile/202407/eff094056dec5da.pdf

Wang, L. (2018). Basic Knowledge on QDLP. China’s Forex, 2018(06), 26-28. DOI: https://doi.org/10.13539/j.cnki.11-5475/f.2018.06.008.

Wen, N. (2024). Asset allocation and investment strategies in financial markets. Money China, 2024(28), 87-89. DOI: https://doi.org/10.19887/j.cnki.cn11-4098/f.2024.28.003.