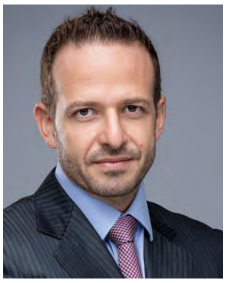
REYL INTESA SANPAOLO

GROWING A FAMILY LEGACY – MANAGING PORTFOLIOS FOR FAMILY WEALTH



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It could be argued that since the start of quantitative easing in 2008, most financial assets have been highly correlated. Equities and bonds have never moved so closely together and that's mainly due to the substantial bond purchases by central banks.
Debt monetisation and artificially low interest rates seemed sensible until inflation surged, forcing the hand of central banks. Consequently, markets suffered substantially this year and the 60 (fixed income)/40 (equities) traditional allocation strategy has demonstrated its limitations. We find ourselves wondering whether it is still suitable for preserving wealth. How do we manage portfolios for family legacy in today's world?

THE NEW 60/40

There has been a shift in investor appetite for risk and asset selection following recent years of low yielding bond markets and inflation worries. In the hunt for returns, private markets have witnessed significant growth in debt and equity investments. Allocations to those asset classes has risen over the last decade. Sacrificing liquidity for higher returns, investing in private equity or private debt could enhance long-term performance for those unconstrained by short-term cash needs. Real assets and commodities are crucial hedges against inflation. On the other hand, during turbulent years, some hedge funds have shown resilience and yielded significant returns. Lastly, digital assets have also come to have a place within asset allocation (AA), albeit a marginal share. The above makes up the "new 40", whereas the "new 60" remains invested in traditional assets like bonds and equities split evenly, with developed markets taking most of the share. Breaking down the strategic asset allocation (SAA) port-folio would yield: 30% allocation to equities, circa 30% to fixed income and 10% to real estate. Allocation to hedge funds would be at 5%, with 20% in private debt and private equity, and gold & commodities at 5%.

CONSIDERATIONS AND CHALLENGES

Risk tolerance, liquidity, and return expectations are the three pillars required for a healthy portfolio. Risk appetite is measured relative to personal preference; however, it is important to understand the life cycle of a principal. Whether it's early, mid-, or late stage will determine the positioning. Typically, the risk spectrum goes down as we move up the life cycle. Liquidity needs vary, so traditional asset classes play a crucial role of generating returns while maintaining the ability to wind down investments when needed.

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Cash flows from coupon bonds also help to set off everyday expenses incurred by families while a bond allocation across all durations can also ensure a regular cash flow stream and reduce reinvestment risk. Setting liquidity requirements over the medium term is an important step which affects parameters such as the maturity profile and underlying liquidity, all of which must be carefully considered.
Equities tend to outperform bonds over the long run: since the great depression, stocks have generated 9.6% p.a vs 5.6% for bonds. Higher return expectations resonate with higher weight allocated into equities and private markets, however, it is accompanied by above average volatility and short-term risks. Once the three pillars are agreed upon, the challenge is in understanding the valuation of certain assets, especially in the private sector. Here, a skilled investment advisor will play the important role of selecting the rights assets, managers, and products.

COMMON THEMES

Responsible investing has become integral to every portfolio. Family offices are becoming more selective as they work to improve their intent and investing objectives. Due diligence is becoming a must, as they seek to shield themselves from greenwashing allegations and better understand the impact of their investments.
Generation Z's interest in cryptocurrencies and blockchain is drawing attention to these young asset classes, with retail investors exploring investing either in the currencies themselves or companies with vested interests in the crypto space. Alongside automation, artificial intelligence and sustainability, these are the areas that could generate high returns in the next 10 to 20 years.

ADAPTING TO THE CHANGING ECONOMIC LANDSCAPE

The world is filled with many uncertainties nowadays: geopolitical issues, deglobalisation, high inflation, rising interest rates and finite resources are just some of the pressing matters facing society. Nevertheless, with every challenge comes opportunity, and it is our duty to identify the appropriate investments to preserve and grow our clients' wealth. Set your goals, manage your risks, and move with the market when the tides change.

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