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Mercer's Cara Williams Turns the Spotlight on Trends for Family Offices

Cara Williams is the London-based Senior Partner of Mercer, where she acts as Global Leader for Financial Intermediaries and Family Offices. She develops and drives the strategy for Mercer's work with financial intermediaries, wealth management firms and family offices globally, ensuring clients' needs are met with a wide array of solutions from market insights, manager research, and asset allocation, to deal sourcing and establishment of investment platforms and solutions. Mercer is one of the very largest advisory and service providers to the global institutional investment industry, with its clients handling more than USD15 trillion of assets under advisement. Williams 'met' with Hubbis by video link recently to offer her invaluable insights into the evolution of wealth management globally and how this is impacting Asia, and to highlight how Mercer and its world of wealth management clients are handling the delivery of solutions during the lockdown.

Williams opens the discussion by zooming in on her role covering family offices. She reports that family offices are increasingly using a 'magpie' approach to investing, creating unnecessary risk.

"What this means," she says, "is that new ideas are often implemented based on market trends and what is popular, rather than what is best for the portfolio. Family office investments are often concentrated in a few assets, exposing portfolios to idiosyncratic risks, which then pose a significant threat to performance, particularly during a market downturn, where losses can be magnified."

Accordingly, she counsels that diversification should not be overlooked by the beneficiaries of the family office, as their wealth typically came from a single source in the first place. "Family offices need to ensure that they have the right tools and processes in place to diversify their portfolios and reduce idiosyncratic risk," she advises.

Williams maintains that family offices in Asia are behind where they need to be. "Unfortunately," she says, "there is still the tendency here in Asia to just invest in either the trendiest thing or maybe the idea they have just recently heard of. There is insufficient diversification as a result."

The term family office, she explains, can sometimes be misleading. "Many asset managers are calling themselves family offices, which I think is not quite right. They are effectively calling themselves multi-family offices (MFOs) which really was, typically, one family started investing in a certain way, and they have opened up to allow other families to invest alongside them. Rather than asset managers that effectively run a number of strategies which are open to investors (families)." It is therefore really the single-family offices (SFOs) that are probably still the purest examples of family offices, while one would need to look carefully at MFOs to determine whether it's an asset manager in disguise or is designed by several families to combine resources.

Williams observes that for an SFO to function effectively, its needs to be large enough to have the scale to make its own investments and also have the internal governance models required.

"I think on this basis, there are actually a number of single families that would benefit from pooling together and becoming multi-family offices. That would require a central governance model where everybody leverages the same insights to establish their investment philosophy, risk tolerance and ultimately allocations. A focussed centralised investment governance model is what has been lacking in many family offices."

Cara Williams' Priorities

The constant challenge of outreach to family offices is a key mission, she reports. "Their tendency to be somewhat remote, to behave exclusively presents a challenge to penetrating them and helping them to operate under a more institutional type model," she explains. "Here," she says, "I refer to outsourcing of the CIO function, the delegation of assets across certain asset classes or entire portfolios, and so forth."

However, she reports that since the lockdown, more families have come to Mercer to broaden their activities with the firm, for example a family office that might have worked with Mercer only on one type of strategy might be asking them to handle the entire portfolio. "This is certainly a priority, as there is solid growth potential here."

'Alternatives' investment is another area of focus, one where Mercer has made a number of acquisitions and investments over the last several years to bolster its research, operational due diligence and investment capabilities. "We are about to relaunch a digital access to our global research in this area, which will be a very strong offering," she reports.

The third core area of growth is in striving towards better connectivity and access to direct deals, and continuing to work on Mercer's global network of investors. Ensuring a robust operational and investment due diligence process on behalf of clients will continue to be a key area of focus. "Mercer ensures clients can invest with those more esoteric investments while confidently understanding any potential risks in doing so," Williams reports.

CARA WILLIAMS
Mercer

Nevertheless, she says it is a worthwhile endeavour. "We see considerable value in these types of families pooling together more often. And for multi-generational planning, working through a family office structure can be more customised and suitable than working through private banks."

"Having a robust investment policy is very important," she adds. "When we see a crisis such as this pandemic," she observes, "it really underscores the importance of a more professionalised approach working from established investment guidelines, as this is a great starting point for discipline and objectivity, as well as for governance. Typically, bad markets make the need for advisory consultancy much more evident, because, in easy market conditions, everyone had seemed to be a genius. We have been harshly reminded that those benign conditions are not enduring; things can change so swiftly and dramatically."

She also observes that a challenge for her and her team is that family offices can operate in somewhat of a clandestine manner, not wanting to

Getting Personal with Cara Williams

Cara Williams is Senior Partner and Global Leader for Financial Intermediaries and Family Offices. Located in London, she develops and drives the strategy for Mercer's work with financial intermediaries, wealth management firms and family offices globally. She ensures clients' needs are appropriately met with a wide array of solutions from market insights, manager research, asset allocation to deal sourcing and establishment of investment platforms and solutions.

Williams also presents regularly on global investment trends in wealth management as well as on Mercer's When Women Thrive platform for Financial Services.

With over 22 years of experience in the pensions and investment industry, she moved to Mercer in 2005 as Global COO of the investment consulting business. Before joining Mercer in the UK, she held roles in New York with Merrill Lynch Investment Management, and also for the French bank, CDC, where she oversaw European sales for their Investment Management group.

Her early career in finance was as a financial advisor with Merrill Lynch in New York. Prior to working in the investment industry, she was responsible for budgets and logistics for US Army and NATO MWR deployments. Even today, she is also an active mentor for external programs supporting and promoting women in their careers.

Williams hails originally from Washington DC and graduated from the University of Michigan, Ann Arbor with a BA, and from The University of Hartford with an MBA in Finance.

Williams has two children aged 13 and 10, and although the family is based in London, they attend the German School. "We are a German-speaking family," she explains.

A fascinating hobby is sports motorcycling, racing a Ducati Monster 1200S. "Incredibly exciting and really one of my favourite things to do," is how she describes what some might consider as tantamount to a daredevil pursuit. "My favourite track is Silverstone, a great experience every time, including riding there on the bike."

Her passion for this sport dates back to her move to Germany after her MBA in Paris. "My boyfriend at that time had a motorcycle, and it was not long before I wanted to be riding it, rather than sitting on the back," she recalls. "I have enjoyed this since my early 20s."

Fitness is another priority and passion, even to the extent of having completed six marathons. More leisurely fitness pursuits include regular paddle boarding.

open their doors to a wider coterie of actual or potential advisors. "They very often do not want to be sold to," she explains. "They also appear to want to have the cachet of exclusivity. But actually, when we get close to them, they realise that if they professionalise things, if they have a dedicated CIO, for example, that CIO and team can act as gatekeepers and thereby carefully access best in class products and solutions while filtering carefully and not then being harassed with unwanted sales pitches from all quarters."

Embracing ESG

Williams then observes that Asia is behind the curve on ESG. She reports that many investment strategies with an ESG focus have achieved outperformance during the Covid-19 pandemic.

"ESG," she explains, "aims to deliver improved organisational performance through a long-term approach that gives management a greater understanding of the ESG risks its business faces. The impact of Covid-19 on capital markets has underscored the value of ESG analysis for organisations and investors, evidenced by the performance of ESG indices during the Covid-19 financial crisis."

She notes, for example, that the sector-neutral MSCI ACWI ESG Leaders Index, has outperformed the broad ACWI Index, especially through the recent market downturn in February and March of 2020. "Investors should, therefore, assess whether they are paying adequate attention to the impact that ESG factors can have on risk-adjusted returns," she advises.

"Historically," she adds, "so many Asian families made their initial wealth in property, and perhaps did not focus much attention on the environment. But these days, there is clear evidence that all areas of endeavour and investment can be allied to energy efficiency and other environmental objectives, so it becomes a win-win on all fronts. Asian investors in general are seeing more of the economic benefits of the ESG strategies, although social and governance are perhaps still lagging behind in the region, and perhaps will be for some time to come."

Social practices

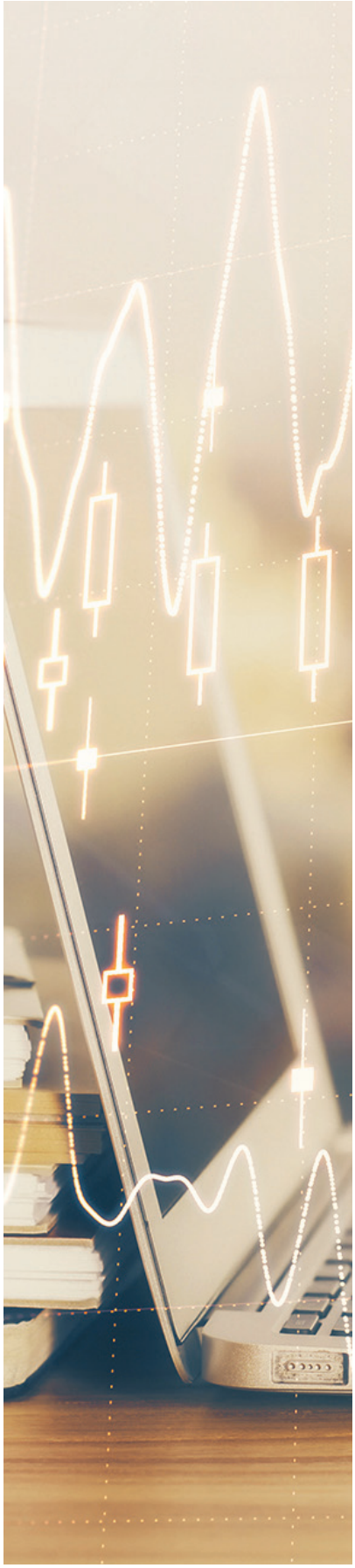
Williams also extends this area of discussion to the social impact of Covid-19, with large portions of the world facing lockdowns that restrict movement and hinder their ability to work normally. She notes that the impact of the virus has forced companies to review their business practices, with a particular focus on their social practices.

"The impact of responsible investing and its value-added is accordingly critical and growing," she reports, "and many responsible investors value companies better if they show they offer long-term resilience planning in their supply chains and labour force. The pandemic has turned the spotlight on those organisations that are well-prepared versus those that are not. Financial intermediaries and family offices that are able to identify such socially-responsible investments have the potential for outperformance."

Covid-19 and Private Markets

Williams turns her attention to the prevalence amongst family offices

Cara Williams riding her Ducati Monster 1200S at Silverstone



to have a considerable appetite for investing in private markets. "It also has to do with the feeling that private markets offer that cachet the public markets do not," she says. "Such investments seem to be more bespoke."

She reports growing demand in recent years in Asia for direct deals, especially in exclusive real estate transactions. "Property is being hit by the pandemic, and so too infrastructure, for example, toll roads, airports and so forth, but all these areas will, we believe, come back to life at some stage, even if very slowly and cautiously at first." She thinks residential will bounce back first, as there is huge demand, and there might even be higher demand for space if there is considerably more home working practiced, as appears likely.

secondary private markets in the near term by lowering transaction volumes, slowing the pace of realisations and distributions, and putting downward pressure on pricing.

Private debt has also been impacted, but the exact effects are thus far difficult to determine given the illiquid nature of the asset class. "Organisations which have not previously invested in private markets will need effective guidance from experienced advisors in order to navigate these complex markets," she states.

Challenging times

Williams draws the discussion to a close by acknowledging that we live in challenging times. "Just looking at government finances," she comments, "the massively

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But she warns that Private markets and private market assets have not been immune to the impact that Covid-19 has had on the global economy. "The extent to which private companies will be impacted by Covid-19 is yet to be determined," Williams reports, "but it is widely recognised that the pandemic is now putting significant stress on the demand drivers, supply chain, human capital and other factors affecting portfolio companies owned by private equity sponsors."

Historically, she explains, market downturns have affected the

increased state debt in most major countries means massive increases in fixed income, and with incredible low and often negative rates, the outlook is not good at all in that area, so investors will have to be incredibly selective and smart. And what is very odd now is the equity valuations seem to be utterly disconnected from underlying earnings for many companies, largely I think because the world is assuming a vaccine will come and will work, sooner rather than later. But we are not there yet, there will be immense, far-reaching challenges ahead." ■

Mercer: Multi-faceted Global Capabilities for the Many Challenges Ahead

Mercer is the world's largest institutional investment advisor with more than USD15 trillion in assets under advisement and more than USD300 billion in assets under delegated management. The firm is also a global leader in the provision of actuarial and related services.

Mercer's more than 25,000 employees are based in 44 countries and the firm operates in over 130 countries. Mercer is a business of Marsh & McLennan Companies, which is New York listed under MMC, and which is the world's leading professional services firm in the areas of risk, strategy and people with 76,000 colleagues and annualised revenue approaching USD17 billion.

Williams reports that Mercer has an on-the-ground presence in 10 Asian markets, including key hubs like Hong Kong and Singapore. While she herself is Global Leader for Financial Intermediaries and Family Offices, her colleagues in the firm work across retirement, investment and asset management solutions include actuaries who help pension schemes, researchers, and also consultants who work directly with the clients, delivering advice on their portfolios. The firm also has its own portfolio managers where the clients delegate the management of their assets for Mercer to manage.

Mercer's institutional business centres on specific services to the retirement and investment services sectors. For example, each defined benefits pension plan needs actuarial services, so Mercer advises on retirement scheme structuring, benefits review and harmonisation.

And on the investment side, Mercer helps institutional clients with their portfolio design, from asset allocation to portfolio construction, selecting the right managers, the right providers, as well as providing delegated management to suit the client's needs.

The Mercer research operation is reckoned to be the largest globally. The role of Mercer's research team is to analyse fund managers, to look at their products, and then formulate a view on the product, but it is not a quantitative-driven process.

The firm has a four-factor research process where researchers examine asset managers by qualitative review. The quantitative factors are used more to validate their research.

Mercer's range of services spans from simply providing its database of asset managers, through to advisory, and at the other end of the scale, Mercer offers delegated management, where their clients can outsource everything to Mercer, which then becomes accountable for whatever objectives the clients set.

Mercer launched a new service for the private wealth side in 2018, called Mercer FundWatch, which rates funds using easy-to-understand star ratings and which is available openly through the website.

Williams explains that there are stringent requirements for private banks and other private wealth platforms with regard to selection and due diligence. Accordingly, being able to reference Mercer's research helps internally and with the regulators. "We differ from our peers in that we are more qualitative-driven and forward-looking, and they are typically more quantitative," she reports.

Mercer's core proposition is as the identifier of high-quality asset managers and good products for their clients. The firm has a long history of success in this regard, and prides itself on objectivity, and its ability to cover the entire spectrum from small to the largest funds and providers.