

NON-TRADITIONAL APPETITE SHAPING INVESTOR BEHAVIOUR

ACCORDING TO IAN TAIT, PARTNER AND HEAD OF THE PRIVATE INVESTMENT OFFICE AT LONDON & CAPITAL, MACRO-ECONOMIC DRIVERS ARE CREATING A FUNDAMENTAL SHIFT IN INVESTOR BEHAVIOUR - WITH AN INCREASED FOCUS ON LIQUID ALTERNATIVES, ESPECIALLY IN FAVOUR OF DIRECT INVESTMENTS.

The fact that liquid alternative investments and fund solutions have become more sought after by wealthy families over the past year than any other since 2008 highlights an interesting shift in behaviour – away from mainstream asset classes.

“There seems to be a recognition that the traditional areas are looking so exhausted now that the alternatives are forcing people to look further,” says partner and head of the private investment office at London & Capital.

Yet these investors are also giving a wider berth than before, it seems, to any illiquid assets.

Liquid alternatives, in particular, have been under-estimated.

A recent Deutsche Bank study, for example, revealed the true extent of demand for these products, with the percentage of participating investors allocating to them up from 28% to 51% year-on-year.

Hedge funds have generally moved into the mainstream space at a rapid pace, with new versions of the product driving asset growth. In Tait’s opinion,

wealthy individuals should have opted for hedge funds much earlier.

SHIFT TOWARDS DIRECT INVESTMENTS

One of the most interesting areas for his client base, however, relates to direct investment opportunities.

These tend to be into companies which hold a family’s interests; some clients look for investments based on different themes. For instance, families might be looking at investing into a European ecommerce venture, an area Tait is positive about.

Driving investors towards direct investment opportunities, he explains, is the fact that the market is going to remain rooted in an environment of low interest rates, low growth and low inflation for many years to come.

“The lack of real juice in terms of the return profile will force people to look into direct investment opportunities,” he predicts.

And to leverage its on-the-ground presence in Hong Kong, London & Cap-



Iain Tait
London & Capital

ital can recommend investment opportunities within that sector in Asia, too.

“After four years of working together [with our Hong Kong office], we are really beginning to see cross-referrals of investment flow into direct company investments,” says Tait.

FEATURE ARTICLE

Low interest rates and low inflation also imply that stable income-producing assets will do well.

"Some clients want to look at what we think are some of the best funds in that class to represent that view," explains Tait.

Yet despite exciting times for new investment opportunities, he is also nervous about the markets, especially from a geopolitical point of view.

"After speaking with a few wealthy Chinese families, for example, it is easy to sense frosty relations, not just between Japan, Hong Kong and the PRC, but also in relation to the Middle East and even Europe," he says.

At the same time, Tait raises some concerns about the margin pressures that discretionary managers are under.

When they have to compete with private banks, for example, discretionary managers might be pitching against a bank that is offering to run a US\$20 million mandate for 50 basis points.

"But then the bank might charge for reporting, administration, custody, rebates and switching, so the fee might rise to 150 basis points, but the families don't see that," he explains.

"So when we pitch for, say a flat rate of 85 basis points, we might lose the mandate," he adds.

MEETING THE NEED FOR MORE ADVICE

Noteworthy about today's investment appetite among his clients is the need for higher-quality advice. That is aligned with the regulatory changes

around the world, especially in the UK following the implementation of the Retail Distribution Review (RDR) at the start of 2013.

This will continue to help in providing better advice to clients, says Tait. "That is especially with regards to entry requirements and qualifications needed by professionals to operate in the industry."

Explaining its relevance more specifically, Tait refers to the Advisor Solutions division at London & Capital. This is a service for IFAs to tap into. "One of the key drivers of RDR has been to force a lot of the top-end IFAs to recognise that they can't offer a one-stop-service," he explains.

As a result, they have the option via this division to outsource their investment management business. ■

