

# Kempen

## Presentation transcript

Presentation context: I'd like you to think about three images today. the movie of Sergio Leone, The Good, the Bad and the Ugly; the Ivory Tower and a crocodile.

### Intro

As an investor, teacher and advisor, there are three key topics that are at the top of my mind and should be at the centre of a Family Offices' investment strategy.

1<sup>st</sup> slide: The Good, the Bad and the Ugly.

The central theme for our outlook for 2019 is Populism and we have consequently undertaken a lot of research around this.

What you see here is the percentage of people voting left centre or right for the 22 main economies and what we can observe is the centre doesn't hold. People are voting in a more extreme way. There are a number of arguments why they are voting in this way. However, the topic of our discussion here today is not the voting trend itself but the financial drivers – mainly globalisation and technology.

2<sup>nd</sup> slide

Whilst it is clear that globalisation and technological developments have done wonders for the average in terms of growth, inflation and asset prices etc.; we see inequality at the expense of equality. The distribution around the mean has become wider, which is the economic rationale behind the voting. We can observe three ways that this can develop in the future: the good, bad and ugly.

First, we either turn more to the left, this manifests itself as more socialist, Marxist, less capitalistic, more government involvement, more inflation and consequently families should worry about their return on capital. This is the bad.

In contrast if we turn more extremely right, there should also be a worry about the return on capital, due to the existence of fewer institutions. This is the ugly.

For our clients, we still support the best case scenario, where there will be more inclusive capitalism, rising wages, slightly lower margins and stable growth.

3<sup>rd</sup> slide

I advised a couple of family offices and I am also a Professor of finance and teach investment theory. In general investment theory/light cycle theory of investing, works for the average person, but not for all my students and not for all investors. The reason is it is looking from an ivory tower and ignores human capital and ignores endowments, which is family offices. Let's say that you are rich on human capital and you work in the financial industry, you are 50, so your standard theory says that in equities you hold 100 minus your age. Therefore your income is highly leveraged to the economy and financial industry, your compensation is also tied to the financial market, is this the scenario where you also want 50% in equities and lose your job?... standard theory says yes, I say no.



Families also need to think about balance and the complete picture. Suppose you are an entrepreneur still running a business. You are wealthy but your capital is tied up in your business equity. Most families have long investment horizons and can bear the cost of illiquid private markets, but in this instance I would not advise this entrepreneur to invest in private equity. For a family office that does not have significant exposure to a going concern private equity will be more appropriate.

Final slide

Markets outlook:

This economic cycle is old. It is the second longest in history and cycles don't die of old age but normally get killed by events. Typically when growth slows and rates on return on capital come under pressure and/or because of the rising cost of capital via increasing interest rates or credit spreads.

Think about the crocodile, where the jaws are falling growth meeting rising rates. In December central banks did. A few months ago we were worried, that both, growth was slowing and cost of capital was rising. However, since the beginning of the year central banks have made a huge U-turn and rates are no longer rising, leaving us to only ponder the outlook for the economy.

We see growth slowing but it's not a recession yet and we are still being paid to take risks. Enjoy it while it lasts!

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