ALTERNATIVE INVESTMENTS

Where the rich are putting their money

Collectible, and sometimes unexpected, items are becoming increasingly popular among wealthy individuals looking for new ways to invest their money

Alex Wright

Luxury handbags, fine wines and even trainers, first edition comics and Pokemon cards have become the must-have collectibles for high-net-worth individuals (HNWIs).

Rocked by the coronavirus crisis, which has wiped billions off the value of global economies and financial markets, wealthy investors are now looking to protect their assets and diversify their portfolios.

As a result, HNWIs are increasingly turning to tangible investments such as Bordeaux wines and Hermès Birkin bags, enabled by technological advances such as online auctions giving them greater access to a wider range of asset classes, as well as growing interest from a younger audience.

Designer jewellery and watches have been another much sought-after line, with exclusive timepieces garnering a ten-year waiting list and a market value double that of the retail price from day one.

"In a time when investors are seeking to expand their investments, art, wine and designer items present an opportunity where not only does it promise a possible high return, but it combines with their personal passion," says Kareem Rathore, partner at Hoxton Capital Management. "Exclusive supplies of one-of-a-kind collectibles and rare opportunities all add to the allure of this audience."

Yet, at the same time, more traditional investments like rare whisky have receded in popularity.

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So what is driving this change in investment behaviour and strategy? Which investments hold their value best and what kind of returns can be achieved?

Much of the change in investment behaviour is being driven by social media influencers. Investors see a product they like trending or being promoted by a celebrity on Twitter or Instagram and buy it.

"There is this increasing search for tangible assets going back to the financial crisis of 2007-8 when equities went down and investors switched their focus to fine art, classic cars and the like," says Andrew Shirley, editor of Knight Frank's The Wealth Report. "Added to that was the liquidity provided by quantitative easing, which has enabled them to make many of these purchases."

Designer handbags, particularly limited editions, were by far the most popular investments over the last year, with Hermès bag returns rising 17 per cent, according to Knight Frank. Fuelled by an appetite for relatively affordable luxury pick-me-ups during the pandemic, particularly from collectors in Asia, investors have flocked to buy these essential status symbols.

Handbags hold their value too, with the 2018 Hermès 35 Birkin bag, which sold for $11,900 retail, now fetching between $20,000 and $21,000 at resale. That's a 75 per cent capital appreciation over three years.

Trainers have also soared in popularity, with an autographed pair of Michael Jordan's basketball shoes fetching $560,000 at auction last year. The market has the potential to reach $30 billion in value by 2030, Cowen Equity Research estimates.

"There has been a dramatic increase in interest in the market for luxury handbags and contemporary streetwear," says Rachel Koffsky, Christie's international senior specialist, handbags and accessories. "That along with the rise of resale sites, social media and famous collectors, as well as dedicated handbag and fashion museums and exhibitions across the globe, has helped drive this market."

Fine wine is another asset class that enjoyed strong growth in 2020, up 13 per cent, as reflected in the Fine Wine Icons Index. Remaining stable throughout the pandemic, the wine market has drawn in investors as prices have held firm.

A recession-proof investment, fine wine has consistently outperformed the S&P 500 Index in recent decades. Because of its low correlation to the global stock market, its value is unaffected by volatility, instead being dictated by supply and demand.

"Fine wine is inherently scarce, which allows for greater price appreciation than many other assets," says Anthony Zhang, chief executive of fine wine investing platform Vinovest. "It also offers tax-efficient diversification, as investors generally don't have to pay taxes unless they take personal delivery of the wine."

The biggest single cost in looking after fine wine is storage. Sufficient cellar space and climate-controlled environments are required to maintain the wine's flavour and value, and ensure it doesn't mature too early.

Another area experiencing a renaissance is classic cars, which climbed 6 per cent, with Ferraris among the most sought-after models. Over a ten-year period, classic cars as a category has leapt 193 per cent, offering a strong risk-reward for investors.

£267k

The record auction price for a bag, achieved by a Hermès Birkin in Hong Kong in 2017

Christie's 2017

By contrast, the top end of the fine art market has waned in popularity with physical auctions shutting down due to the COVID crisis and no painting selling for more than $100 million for the first time in years. As a whole, the AMR All-Art Index was down 11 per cent in 2020.

"The volume of all sales that were publicly auctioned at Sotheby's and Christie's was down 26 and 46 per cent on 2019, respectively," says AMR's Sebastian Duthy. "The problem was compounded by the slowing of the supply of quality works as consigners who could afford to wait preferred to sit it out at home."

Whisky's 3.5 per cent decline was mainly due to the volatility of ultra-rare top-end whisky as an investment. That said, a hand-painted bottle of The Macallan stored for six decades in an ex-sherry oak cask recently sold for an auction record of £1.2 million.

The biggest issue with protecting alternative investments such as these is the security costs associated. Then there is the specialist insurance coverage, which can run to the tens or even hundreds of thousands.

"Depending on where your investment is located, you have to factor in protection against natural catastrophes, such as wildfires, earthquakes and hurricanes, transit and humidity controls," says Ginny Hunter, senior vice president at Marsh McLennan Agency Private Client Services. "You also have to partner with a specialist broker and insurer who really understand the asset class and can provide broad and flexible coverage."

Among investments to watch for in the future is jewellery, notably diamonds. A dwindling natural resource, they are a highly valued asset.

"No new diamond mines have been found for decades," says diamond expert Henry Pruwer. "And with laboratory-grown diamonds increasing in circulation, certified natural diamonds have a special appeal to purists and investors alike." ●

THE VALUE OF LUXURY ITEMS HELD UP IN 2020

% change in value to Q4 2020

Knight Frank 2021

	Growth in 2020	Growth over the past 10 years
Handbags	17	108
Wine	13	127
Cars	6	193
Watches	5	89
Furniture*	4	22
Coins	-1	72
Coloured diamonds	-1	39
Jewellery	-1	67
Rare whisky	-4	478
Art	-11	71

* To Q2 2020

Commercial feature

Wealth management in times of change

Wealth management firms are accelerating digitalisation in response to historic trends and events

Even before coronavirus disruption, radical changes had been afoot in the private wealth sector for some time. Recovery from the global financial crisis of 2008 was made more challenging by new regulations aimed at preventing a repeat and all the while new upstarts from a burgeoning fintech sector were able to respond to consumers' digital expectations faster. The pandemic then amplified the need for digitalisation in the private wealth sector.

Wealth, in itself, has taken on new meaning, driven by the rise of mass affluent segments in developed economies and a growing middle class in emerging markets. Traditional wealth, as defined by high or ultra high net worth, has also seen major changes through a generational transfer of trillions to millennial and post-millennial generations, who are not only digitally native, but also have different views on money than their predecessors.

Deeper understanding of digital

Digital transformation, albeit much hyped, was previously misunderstood and incomplete. The adoption of "point solutions", which focused primarily on the user experience and at the frontend, did little for integrated, enterprise-wide digital workflows and operational fabric.

True and comprehensive digital transformation affects the highest-level strategy, process design, operations and business models. It radically changes the role of people in front-to-back operations and the way they use technology.

Improving user interfaces or back-office operational efficiency leaves the institutions partly digitalised, but unable to benefit due to disconnects between functions and business units in their levels of digital adoption. Only full, cross-functional, end-to-end digitalisation can ensure return on investment and positive outcomes.

Gaining tangible value from digital change starts by building a reliable, open and consistent digital business data layer, which empowers clients to access their investment information and provides advisers with relevant, real-time and actionable insights to act on.

Secondly, it requires a digital customer experience delivered through the optimal channel mix, enhancing timely and personalised interactions anytime and anywhere. Finally, digital must be a new standard, completing the "open wealth" architecture with digital native business processes.

Digital transformation is a journey, not a destination. There is no end state to the required technological and cultural changes; it is a continuous process of evolving capabilities to meet evolving needs and markets. This makes long-term planning a critical priority, road-mapping phased adoptions and transitions, and optimising resource allocation for maximum outcomes.

Tech vendors must play a valuable collaborative role in this process and Objectway, a digital wealth and asset management technology and services provider, has a track record of assisting wealth managers' strategic digitalisation plans.

All about the customer

The wealth management sector is rediscovering the imperatives of customer centricity. Traditionally providing tailored experiences in a relationship-based business, firms are now adapting to new client expectations in the digital world.

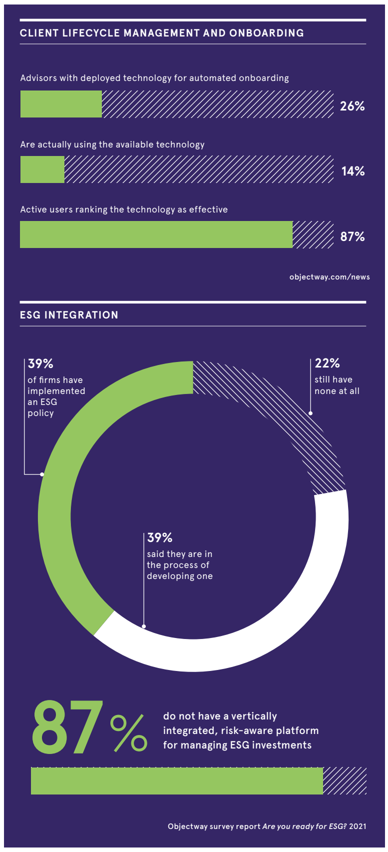
The early months of the pandemic were a wake-up call that excellent in-person service is no longer enough and even a well-designed website does not meet diverse interaction requirements. This realisation triggered a catch-up rush to innovate customer engagement with digital tools and solutions.

Onboarding new customers is a critical life-cycle event that remains a challenge for most firms and a weakness for many. In a recent news release, Objectway reported a Gartner study in which only 26 per cent of advisers said automated client onboarding was available at their firm and just 14 per cent were actually utilising it.

Despite the low adoption, 87 per cent of advisers using the technology ranked it as effective. Best-practice solutions include process-oriented client life-cycle management with advanced digital onboarding, combined with opti-channel and omni-device portals and native apps for superior user experiences.

Managing wealth remains at the core

While the fundamental objectives of wealth management are unchanged – wealth preservation and growth – the requirements are shifting and increasingly complex. Diminishing returns from traditional investments have increased interest in new and alternative asset classes: from real estate and private equity to cryptocurrencies and tokenised assets.



> **A modern Investment Management solution must leverage a total portfolio approach to generate alpha in terms of stronger returns and higher quality of investments**
>
> Alberto Cuccu, CEO international, Objectway

Sustainability, meanwhile, is no longer a fringe concept. Client interest has placed environmental, social and governance (ESG) investing centre stage, though wealth managers are yet to fully embrace it.

A recent Objectway survey found that only 39 per cent of firms have implemented an ESG policy, another 39 per cent are developing one and 22 per cent have none at all. Nearly 90 per cent of firms said they do not have a risk-aware, vertically integrated platform to manage ESG investments.

A complete solution requires ex-ante analysis of risk and sustainability, validated by ex-post monitoring and relied-on processes that take into account the risk tolerance and characteristics of the end-customer while respecting the sustainability criteria.

Objectway helps wealth managers to achieve higher returns from ESG integration through its end-to-end, risk-aware investment management solution RiskTech.

Wealth and investment management firms are also seeking to move away from decoupled and independent IT systems, and towards a fully integrated wealth ecosystem that handles all business operations.

Such a platform must leverage a total portfolio approach to generate alpha in terms of stronger returns and higher quality of investments. That would typically require a front-to-back open and modular suite providing a digital integrated experience to both wealth management professionals and customers, with a client experience portal, client life-cycle management, artificial intelligence-based portfolio and risk management, and securities accounting.

Objectway's WealthTech Suite won the XCelent award for Breadth of Functionality and for Client Base. Research and consulting firm Celent also commended Objectway's portfolio management and advisory solution, adviser and investor portal and mobile apps, as well as its client life-cycle management and onboarding solutions, saying they are "rich with capabilities that ultimately augment adviser–client interaction, drilled-down automated reporting, adviser efficiency and comprehensive key performance indicators".

Living and operating in ecosystems

Today's interconnected world is made up of fully integrated technology ecosystems and architectures with flexible modular structure and advanced, broad application programming interface (API) capabilities, which enable and enhance operating models like software as a service and business process as a service. The cloud, public, private or hybrid, is the ultimate ecosystem, with Objectway already supporting more than 100 clients with over €1 trillion of assets under management.

On the business side, partner and other stakeholder ecosystems enable collaborative engagement with other solution providers to maximise the value to client firms and their customers. Tech vendors can act as trusted partners of their clients in digital transformation and the delivery of evolving capabilities. This is one Objectway philosophy and strategy, tested in long-term relationships with some of the most successful players in the industry.

For more information please visit objectway.com

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