



# Investors Institutional and Retail

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## General Rules

### SHORT INVESTMENT HORIZON HIGH ONGOING CASH NEEDS

Holds lower risk assets i.e. more bonds  
Holds more liquid assets



**SAVING TO BUY A  
HOUSE NEXT YEAR**



**UNIVERSITY ENDOWMENT**  
Paying operational costs  
right now



**PENSION FUND**  
People will retire in  
10 to 20 years



**SOVEREIGN WEALTH FUND**  
Investing for future  
generations!

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## Investors Have Very Different Needs



**CAPITAL PRESERVATION  
VS. MAXIMUM RETURNS**



**TAXES**



**HIGHER OR LOWER  
RISK TOLERANCE**



**REGULATORY**



**LONG OR SHORT  
INVESTMENT HORIZON**



**POLITICAL**



**NEED FOR LIQUIDITY**



**ENVIRONMENTAL,  
SOCIAL AND GOVERNANCE**

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## Key Client Groups



**RETAIL  
INVESTORS**



**HIGH NET WORTH  
(HNW) INVESTORS**



**INSTITUTIONAL  
INVESTORS**



Low intensity and  
complexity of service

High intensity and  
complexity of service

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## Key Institutional Investor Groups

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## Pension Funds



### OBLIGATIONS & LIABILITIES

Present value of future pension payments

Most payments expected to happen far into the future

Ongoing pension payments mean some liquidity needs

Calculation of these obligations is complex, relying on assumptions for discount rates, inflation and mortality

### Asset/Liability Management (ALM)



### ASSETS

Stocks, bonds, real estate and other assets

Assets move with the markets, not the obligations

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## Pension Funds



**FACES AN ASSET  
LIABILITY  
MATCHING  
CHALLENGE**



**USUALLY HAS A  
LONG  
INVESTMENT  
HORIZON**



**NEED FOR  
LIQUIDITY IS  
LIMITED**



**RETURNS ARE  
OFTEN TAX  
EXEMPT**

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## General Insurance Companies (aka non-life)



### **OBLIGATIONS/LIABILITIES**

Ongoing payment of claims  
Payments happen continually

Under normal circumstances these  
claims are relatively stable and  
predictable

### **Asset/Liability Management (ALM)**



### **Assets**

Premiums paid in  
More bonds than a pension fund  
Must have some liquid assets to cover ongoing claims  
Need to be large enough to cover  
ongoing and future claims

Assets move with the markets,  
independent of the obligations

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## General Insurance



FACES AN ASSET  
LIABILITY  
MATCHING  
CHALLENGE



SHORTER, MORE RISK  
AVERSE INVESTMENT  
HORIZON THAN  
PENSION FUNDS



HAVE A HIGHER  
NEED FOR  
LIQUIDITY THAN  
PENSION FUNDS

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## Endowments

Pools of assets that have been **provided by donors to fund a specific need**, a common example being the funding of a university



Aim at keeping the principal of the fund stable and use the returns to fund the desired operations



Spend a little less than the returns in strong years, to maintain a buffer for weaker years

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## Endowments



**TYPICALLY LONG  
INVESTMENT  
HORIZON**



**HIGH  
ALLOCATION TO  
EQUITIES AND  
ALTERNATIVE  
ASSETS**



**NEED SOME  
LIQUIDITY FOR  
ONGOING  
EXPENSES**



**RETURNS ARE  
USUALLY TAX  
EXEMPT**

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## Sovereign Wealth Funds

A sovereign wealth fund (SWF) is a **state-owned** investment fund that invests in assets such as stocks, bonds, real estate or alternative investments



### SAVINGS FUNDS

Saving for future generations  
Long investment horizon



### STABILISATION FUNDS

Reduce the volatility of government revenues  
Shorter investment horizon

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## Saving Funds vs Stabilization Funds



**DIFFERENT INVESTMENT  
HORIZONS DEPENDING  
ON PURPOSE**



**CAN HOLD A WIDE  
VARIETY OF ASSETS**



**NEED FOR LIQUIDITY  
DIFFERS DEPENDING  
ON PURPOSE**

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## High Net Worth Investors



**High net worth individuals or family  
offices are large enough to warrant  
more intense customer service**

The demands and requirements of HNW clients vary widely depending on individual circumstances

The key difference to institutional investors is that private investors are concerned about post-tax cash flows

### **EXAMPLES OF POTENTIAL TAX CONSIDERATIONS**

**Tax on capital gains vs income**

**Tax rates in different jurisdictions**

**Inheritance taxes**

**Timing implications of tax  
year dates**

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## High Net Worth Investor Needs



### CLIENT INPUTS



INVESTMENT  
HORIZON



REQUIRED ONGOING  
CASH FLOWS



TOLERANCE  
TO RISK



TAX  
CONSIDERATIONS

As clients are very different, the investment strategies will also differ widely

The challenge for the advisor is to **balance the needs of each individual client** and align it with an appropriate investment strategy

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## Private/Retail Wealth Tiers in the US

### WEALTH TIERS IN THE UNITED STATES (2014 EST)

Name of Tier	Investable Asset Range	Number of households	Portion of All Households	Average Investable Assets	Total Investable Assets Tier (US\$ Billions)	Portion of All Investable Assets
Ultra-high-wealth market	>\$20m	92,726	0.08%	\$45,685,216	\$4,236	12%
High-wealth market	\$10-20m	226,252	0.18%	\$12,563,256	\$2,842	8%
Wealth market	£5m-\$10m	716,611	0.6%	\$6,963,034	\$4,990	14%
Affluent market	\$2m-\$5m	1,950,285	1.6%	\$3,139,957	\$6,124	18%
Mass-affluent market	\$500k-\$2m	9,939,540	8.1%	\$994,842	\$9,391	27%
Middle market	\$100-\$500k	23,164,100	19.0%	\$235,045	\$5,445	16%
Mass market	<\$100k	86,894,029	71.0%	\$17,020	\$1,479	4%
TOTAL		122,983,543	100.0%	\$280,583	\$34,507	100%

Source: Adapted from the Cerulli Report, "US Retail Investor Advice Relationship 2015" p.55 Data sources for the table: U.S. Federal Reserve, "U.S. Census Bureau, and Cerulli Associates

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