

## The Future's Not What It Used to Be

*By Thomas K. Hoops, President & Chief Operating Officer, New Republic Partners*

Designing and implementing an investment solution to some degree requires a view of the future. The challenge, of course, is that the future is unknowable.

Some investors try to predict short-term market moves and actively trade on the barrage of daily news. Good luck to them, but that is not our approach.

As long-term investors and capital allocators, we do not engage in short-term prognostication. However, we do need to interpret longer-term trends and connect them to the current environment and client objectives. And while always uncertain, there are some things we do know about the future, and they all point to an increasingly challenging environment for investors of all types.

### **What do we know?**

Demographics. Particularly in the developed world, demographic trends point to an increasingly aging population. This necessarily lowers overall economic productivity and is a headwind to GDP growth. Increasing costs of health care and underfunded retirement systems exacerbate the situation.

Interest Rates. Since hitting a peak in 1981, interest rates have been in a near-constant march lower. That is 40 years of tailwinds to fixed income markets providing investors outsized returns and providing portfolios both income and diversification. With rates now at near-zero levels and likely staying there for a while, it puts in doubt whether traditional

fixed income will continue to provide investors the same levels of income and diversification.

Valuations. Fueled by central bank liquidity and low interest rates, stock market valuations in the U.S. are near all-time highs – and neither of these conditions are likely to change for some time. While current valuation levels may tell us little about near-term returns, it is empirically true that they tell us a lot about long-term returns. Today’s high prices likely will result in lower average returns for the U.S. stock market over the next 10 years.

Client Needs. While traditional sources of growth and income may underwhelm going forward, the needs and objectives of clients remain unchanged. Charitable organizations still need to generate meaningful returns to fund grants, scholarships, and operating costs. Successful families and individuals continue to have financial aspirations for themselves and future generations. Add to this the realities of most municipalities, states, and the federal government, and it is likely that tax burdens will rise materially.

### **What do we do now?**

Given what we know, it is clear to us that what has worked very well for investors the last 40 years may not work as well for the next 40.

Based on the changed economic and financial landscape, to continue to meet client objectives, investment portfolios need to look different than they have in the past. Specifically, they need to be more globally diverse, have increased exposure to private markets, seek less correlated sources of income and growth, and be vigilant around fees and taxes.

This is not really a big secret...large institutional investors and sophisticated family offices have known this for years and have been building portfolios accordingly.

Unfortunately, outside of this rarified group most high-net-worth clients are still receiving traditional, home market-biased investment solutions with little to no access or allocation to many of the additional sources of return available in global, private, and other alternative asset classes. And despite deserving better, they are likely paying too much for what they ultimately receive.

### **Why?**

The demands of pulling together a tailored solution of global investments that span the public and private markets requires resources, experience and access. That requirement equates to needing financial scale most investors and their advisors lack. While many of these investment opportunities offer the potential for higher or differentiated returns, there is a significant performance dispersion among investment managers. Access to the best requires meaningful, scaled relationships.

When today's high-net-worth clients are given access to private market or alternative strategies, it is often through a packaged product that all too often can be opaque, contains extra layers of fees, possesses conflicts, and lacks the types of investment opportunities still reserved for the largest investors.

The historical structure of the investment management market makes it hard to see how this will change, at least any time soon.



## **Time for a New Approach**

New Republic Partners is designed to serve the holistic financial needs of our clients with a new approach that recognizes these investor challenges broadly, while being responsive to unique client objectives.

Our approach brings clients the scale, access, and experience of a multi-family office through a partnership approach...investing with and alongside our founding families, the investment team, the firm leadership and other successful clients.

Through a commitment to transparency, reasonable pricing, and re-defining the client experience, we extend and deliver investment solutions and opportunities typically available only to the largest investors. We are proud to offer unique, institutional quality investment solutions provided by partners who are literally invested in each client's success.

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