

Issue 02

Horizons

Family Office
& Investor Magazine



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Matthias Knab
Publisher

Welcome to Issue 2 of Horizons: Family Office & Investor Magazine

“The Rise and Rise of Family Offices” continues, so this investor magazine will be received by over 93,000. In case you are reading this in a PDF format, we also recommend to [use the convenient and modern ePUB format and download Issue 2 here](#).

As a start, please receive my warm invitation to the **Aspen Family Wealth Gathering** Feb. 11-14th 2019 which is initiated and organized by a group of US family offices and focuses on topics of particular relevance to NextGen members of wealthy families in an *intimate get-together*. To join us and get involved, please email Aspen@Opalesque.com now.

In this issue, we will also spend some private time with **Stephen Kennedy Smith** and share new research on **Better Decision Making** in Asset Management. Prof. Dr. Stocker from the University of Berne, Switzerland tells us **how to view climate change also as an opportunity**. We also speak with James R. (“Jim”) Hedges, IV, one of the “Top 100 Art Collectors in America” about his passion for Warhol photography and how he is making **up to five and ten times his capital** in this \$100 billion market.

Mitzi Perdue is the daughter of one family business titan (her father founded the Sheraton Hotel Chain) and the widow of another (Perdue Chicken). She reminds us that it wasn’t raining when Noah built the Ark, and explains why and how we should **prepare for family business quarrels now** – knowing that 70% of family-owned businesses won’t make it to the next generation mainly because of in-fighting.

We also make some recommendations how family offices and (ultra) high net-worth individuals can better manage and mitigate **online risks**, share research why US Family Offices are **missing out on PE opportunities**, and investment wizard Francois-Serge Lhabitant introduces his new book on **Portfolio Diversification** which he says is widely practiced, but rarely discussed or challenged.

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Horizons is a free publication, please [use this link to subscribe](#). If you are interested in actively getting involved as a contributor or sponsor of this exclusive magazine, please email me at knab@opalesque.com.

In a separate email we will be inviting you to participate in a survey on ESG where we also aim to highlight the unusual but rewarding connection between ESG-focused asset management and Big Data.

Matthias Knab
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INVITATION: Aspen Family Wealth Gathering February 11-14, 2019

Aspen, a storied ski resort and haven for outdoor enthusiasts, is also the seat of enormous cultural and educational institutions. The Aspen Institute at The Aspen Meadows, founded after World War II, has become a wellspring of global learning for world leaders, business executives and NGO's.

The Aspen Family Wealth Gathering is initiated and organized by a group of US family offices and focuses on topics of particular relevance to NextGen members of wealthy families.

The Gathering will begin on Monday evening the 11th of February with attendee arrivals and a Welcome Cocktail at The Aspen Institute. On Tuesday and Wednesday, attendees will hear from leading speakers each morning on topics such as ESG, impact investing, philanthropy, trust and estates issues, alternative investments and co-investments. The event is noncommercial and educational in tone.

In the afternoons, attendees can either participate in open roundtable discussions on a number of more-focused topics such as: investing in art and other passion investments, film production investments, emerging markets and family dynamics.

However, attendees may also choose to ski at this time, benefitting from group pricing on ski lift tickets and rentals.

On Tuesday and Wednesday evenings, there will be group dinners held at renowned Aspen venues: Pine Creek Cookhouse and The Woody Creek Tavern.

Attendee departures will occur on Thursday, February 14th. Special hotel rates may be available for guests wishing to arrive early or stay longer.

*The Aspen Family Wealth Gathering is a carefully screened and intimate get-together.
To join us and get involved, please email Aspen@Opalesque.com now.*

Private Time with Stephen Kennedy Smith



© Paul Morigi / Getty Images

Stephen Kennedy Smith

Members of the Kennedy family have been involved in public service since 1884, 35 years after their forebears arrived from the Republic of Ireland.

Stephen Kennedy Smith is the son of Stephen Edward Smith and Jean Kennedy Smith, the eighth of nine children born to Joseph P. Kennedy, Sr. and Rose Fitzgerald, with Jean being their longest-lived and last surviving child. Stephen's father worked in the White House staff of President Kennedy, managed the political campaigns, ran the business affairs and oversaw the Kennedy family trusts.

Stephen Kennedy Smith is a principal at Park Agency - Joseph P. Kennedy Enterprises, the Kennedy family office, and an investor and entrepreneur. Stephen also is the editor of JFK- a Vision for America, published by Harper Collins. He currently is a lecturer at the Sloan school of Management in the visionary investing program, as well as a fellow at the Connection Science Group at MIT. He is also a three-time recipient of the Danforth Award for Excellence in Teaching at Harvard University.

Stephen Kennedy Smith is currently involved as a board member, advisory board member or partner in a number of health care and technology businesses. He received his BA from Harvard University, J.D. from Columbia University, and MA Ed from Harvard University School of Education. His current investment and business focus is scaling innovative healthcare, and neuroscience companies.

The bulk of the Kennedy family's wealth is held in a number of trusts which are mostly managed by New York based Joseph P. Kennedy Enterprises, the Kennedy family office with assets dating back to 1927, according to Forbes. Joseph P. Kennedy's choice to place his fortune in trusts is possibly the single most critical reason why the family wealth is still around today.



© William Hustler and Georgina Hustler / National Portrait Gallery, London

Matthias Knab: This photo shows the Kennedy family 1938 on the grounds of the U.S. Embassy in London. If you look at it, everyone is smiling and happy. Can you please tell us what happened after that photo?

Stephen Kennedy Smith: Right, this photo of the Kennedy family was taken on July 4, 1938 on the grounds of the U.S. Embassy in London, England. You see my grandfather Joseph Patrick Kennedy who had risen from an immigrant background to being one of the richest men in America. President Franklin D. Roosevelt appointed him to be the first chairman of the U.S. Securities and Exchange Commission (SEC), and he later directed the Maritime Commission and served as the United States Ambassador to the United Kingdom which at that time was most power-

ful diplomatic position.

So, this photo was taken about one year before World War II broke out. As you referred to, what's really remarkable about the photo is what happened afterwards. If you look to my grandfather's right (4th person from the left), you see my mother, Jean Kennedy, who is the last member of the family alive. And then her right (3rd person from the left) is my Aunt Rosemary who

was born with intellectual disability. My grandfather was advised by the leading doctors at that time that she should have an operation called prefrontal lobotomies. And so, at age 23 a part of her brain was removed, but the operation failed, and she was disabled for the rest of her life.

And then, to my grandmother's left, you see my Uncle Joe who was a Naval Aviator killed in a secret bombing raid in 1944. On the far right is my Aunt Kathleen who was also killed in a plane crash in 1948. Then, President Kennedy to the left of the photo came home with a war injury from an incident when the Japanese destroyer Amagiri suddenly rammed and cut in half the patrol boat he was commanding on the Solomon Islands. That injury caused him severe pain for the rest of his life.

What this really dramatizes is the tremendous suffering that our family went through, and I think part of what catalyzed our interest in public policy and medicine was an effort to somehow transform this suffering into some constructive purpose. William James has this very famous essay called, "What Makes the Life Significant." And in that essay, he says that *"The solid meaning of life is always the same eternal thing,— the marriage, namely, of some unhabitual ideal, however special, with some fidelity, courage, and endurance; with some man's or woman's pains.—And, whatever or wherever life may be, there will always be the chance for that marriage to take place."*

I believe when President Kennedy came home from the war he found his unhabitual purpose. He covered the UN Convention in 1945 in San Francisco, and in his dispatches from the convention he said that the one thing the world cannot afford is another war. If you look at his history as a President, he was able to avert war with the Soviet Union during the Cuban Missile Crisis. He also prevented China and India from getting into a nuclear war during his presidency. He was able to get the Nuclear Test Ban Treaty signed. And he gave really one of the greatest speeches of the 20th century history at American University where he said that, *"In the final analysis, we all inhabit this small planet, we all breathe the same air, we all cherish our children's future, and we are all mortal."* His own life then ended, as we all know, with the assassination in 1963. So, going back again to the July 1938 photo and what then unfolded, this kind of crucible of suffering was and remains a great creative force for our family.

In my own life, when I was 11 years old, I was on Robert Kennedy's funeral train which my father organized. Robert or "Bobby" Kennedy was United States Attorney General and then Senator for New York until his assassination in 1968. His body was taken from St. Patrick's Cathedral in New York to Arlington Cemetery in Washington, and while typically that trip might have taken four hours, it took us eight hours because of the thick crowds lining the tracks on the 225-mile journey, of every kind of person you can imagine: Black people, white people, Chinese, American, Jewish people, war veterans and holding flags and their children's hands.

That made a very big impression on me. There were more than two million people in total, often as far as you could see on both sides of the tracks for eight hours. When you go through an experience like that, you just realize that you are connected to a much bigger reality than your own personal ego, and I don't say that in a grandiose way, but a reminder of what is really true in life, which is that we are all mortal. I believe if you keep that in mind, then it organizes your priorities in a different way than when you just focus on money or on getting what you want. That was one big lesson I believe I learned quite early in life.

The other lesson is that that you have to persevere, and one in the quotes that I put in my book JFK- a Vision for America was from President Kennedy's journal and it's from one of his favorite writers, John Buchan: *"No cause is ever lost or won. The battle must always be rejoined, the creed restated."* I think that my uncles taught me tremendous sense of perseverance and dedication by their example, which is still inspir-

ing to me. I feel very fortunate to have been able to benefit from their example.



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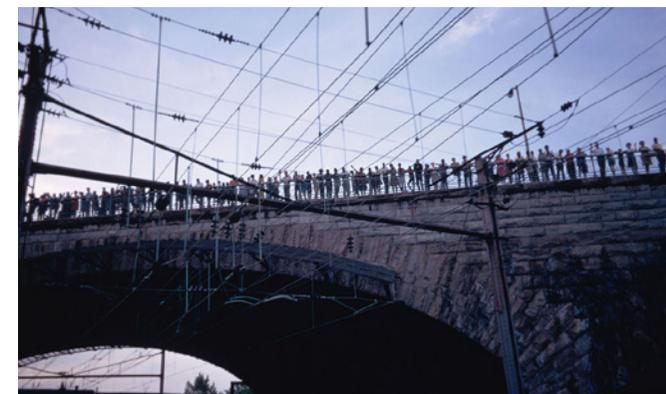
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Matthias Knab: What do you think is the role or the message of the Kennedy family today?

Stephen Kennedy Smith: That's a really good question. I think that there could be a lot of messages, Ironically the motto of the Kennedy family is "consider the end". To me that means consider the end to which you are devoting your time, and also consider your actions in relation to your own mortality. I would say that possibly the overriding message is that personal responsibility and contributing to society is important. In line with that, and because of our religious upbringing and Catholicism, I think we believe that it's important to help others and not just be focused on yourself.

Allow me to take you back over 50 years ago when Robert F. Kennedy gave his greatest speech in South Africa which people then called "Ripple of Hope" speech saying that *"it is from numberless diverse acts of courage and belief that human history is shaped each time a man stands up for an ideal or acts to improve the lot of others or strikes out against injustice. He sends forth a tiny ripple of hope, and crossing each other from a million different centers of energy and daring, those ripples build a current that can sweep down the mightiest wall of oppression and resistance."*

And so, when he left South Africa, Robert Kennedy had instructed the pilot to fly down low over Robben Island and tilt the wings of the plane. The gesture was symbolic, of course – a show of solidarity with the political prisoners – and one that angered the apartheid regime at that time. Many years later, Nelson Mandela personally came to the Kennedy Library to thank my uncle Ted Kennedy for that speech. That is an example of the kind of connection a moral act can have. And so, when you feel like you are personally powerless in the face of the great circumstances of history, I guess you can always pull back on your ability to do something that is the right thing, as small as that could be. I think that's really the message that I take in response to your question.

But let me also add that the Kennedys are not saints, we have plenty of faults, right? So I am not saying we are better than anybody else, I'm just telling you what I learned from watching my uncles when I was growing up. This is what I took from it. They have their faults and we all have our faults.

Matthias Knab: At a recent family office conference I heard you speak about two angles in your family office's healthcare investments – commercial and non-profit. Can you tell us more about those?

Stephen Kennedy Smith: Sure. Because of what we went through, our family office and the Kennedy Foundation has been focusing a lot on sponsoring new research and innovation in medicine and health-care. My grandfather was very generous and endowed the chair of Neuroscience at Harvard Medical School as well as ten other centers of medical excellence, including the Georgetown Center for Bioethics and other things. My aunt Eunice initiated the Special Olympics, and so as an extended family we have non-profit involvement and then also a deep involvement with medical innovation and research.

I personally and other family members have taken an interest in some investments in this area as well because of our network in health care. My uncle Ted Kennedy was very involved in overseeing and funding of biomedical research for many, many years, so we didn't really get involved in business when he was around because we didn't think it was appropriate, but now members of my generation are.

In 2017 I published *JFK - a Vision for America*, for which I also asked the most prominent American



political leaders, historians, artists, and writers to write about JFK's great speeches. One contributor was the historian David McCullough who is perhaps considered our greatest historian, now I think 84 years old. He told me that if he was a young man today, he would be writing or studying the history of science, because he thinks science is going to be the transformative and most influential force in global civilization in the coming period. I fully agree and that's exactly why I am tremendously interested in science and medical research right now. When you look at the explosion of innovation which happens in complementary ways in areas such as genetics, stem cell biology, artificial intelligence, I think that the coming together of those different, completely new

technologies are going to transform global health and human civilization. I would say that if you are an intelligent person or an investor, you can't ignore that fact.

And then, of course, we have the very human dimension of transforming lives. This is probably the fundamental reason why I find healthcare so compelling. Information technology is great and in some ways it does change lives in very important ways, but there's nothing like actually saving a life, or helping someone who has an incurable illness is a whole different level than just creating better communication, and so I find that tremendously exciting.

Matthias Knab: Can you mention some company names you are currently involved with?

Stephen Kennedy Smith: I have a holding company New Frontier Bio that develops companies. One company we cofounded is Pear Therapeutics. We just got the first FDA approval for digital health which includes disease modifying treatment using a cellphone. We have partnerships with Sandoz and Novartis to create ten different drug software combinations utilizing evidence-based cellphone interventions combined with medication to treat different diseases. The areas we have now partnerships are in addiction, sleep disorders, schizophrenia and serious depression.

We also have a company that is using computational biology and synthetic peptide design to develop a whole new category of drugs for brain related illness and for cancer the technology was originally funded by the U.S. Defense Department. That company is called Resolute Bio. Then I'm also starting a state-of-the-art regenerative medicine clinic. We are seeking regulatory approval in a number of countries to open up what we believe could be the world's most advanced regenerative medicine clinic.

Matthias Knab: If somebody is interested to invest with you and support your purposes, how would that work? Do you offer co-investments or are these companies public already?

Stephen Kennedy Smith: Pear is projected to go public in 2019. We just did a large institutional round, so I'm not sure if we have more room for investment in that company. We are taking investments right now into the other two companies.

Matthias Knab: In this “Private Time” interview series in *Horizons*, we also aim to get to know our interview partners on a more personal level as well, for example we ask for books that you love or if you want to share anything more personal?

Stephen Kennedy Smith: Well, in terms of something idiosyncratically personal, I grew up in a competitive and somewhat combative family and when I was a young man I used to box in college and in law school, I boxed in Norman Mailer’s boxing club “The Raging Jews” which included the actor Ryan O’Neil and the former light heavyweight champ Jose Torres. And boxing taught me some interesting things.

When I was in my late twenties I gave up boxing and started to do yoga and meditate and meditation has now become the foundation for my response to the world. I still think there is a virtue to learning how to defend yourself against bullies though. When they asked President Kennedy how he wanted to be remembered he said, “As an idealist without illusions” I admire that response.

I can surely continue now talking about some books that I love: I love Ralph Waldo Emerson – just on top of my head I recall his essay on self-reliance and also an essay called the “American Scholar.” In my view, Ralph Waldo Emerson is the greatest American philosopher – he also has a connection to the great

mystic philosophers of other times and cultures. Emerson and Thoreau were the transcendentalist, and their transcendental philosophy connects in a way with the deep meditative tradition of the East, for example Buddha or the Indian Rishis.

I think when you’re looking for a deeply inspirational, spiritual American thinker, I can’t think of anyone who really compares to Emerson. I also obviously love William James because William James was the inventor of psychology, the application of science to the life of the mind, and by marrying philosophy and science he really created a whole new discipline.

Another writer or personality that comes to mind is Václav Havel. Two of his greatest writings are the *Power of the Powerless*, and *Living in Truth*. I think he is to some extent very connected spiritually to my uncles in terms of his political philosophy, his advocacy, his zest, and his courage in taking on a totalitarian regime. He spent multiple stints in prison, the longest being nearly four years between 1979 and 1983, before becoming the last President of Czechoslovakia from 1989 until the dissolution of Czechoslovakia in 1992 and then as the first President of the new Czech Republic from 1993 to 2003. His Civic Forum party played a major role in the Velvet Revolution that toppled communism, and so ultimately through his own perseverance and genius, he was able to transform his society and also keep the coun-

try on a peaceful path during that challenging time of regime change and the split of Czechoslovakia into the Czech and Slovak Republic. He is considered by some to be one of the most important intellectuals of the 20th century, and clearly, he is a wonderful example of how much leadership matters.

In terms of science books, I think E.O. Wilson’s book, “*The Nature of Human Existence*” is one of the really great modern books and should be read by everyone because he talks about the connection between human beings and all other forms of life. I believe this is really an important message right now. He delivers that message in a really profound way that makes you realize that our over emphasis on the uniqueness of human beings is misguided, and that we really need to pay attention to other species and the health of the planet because of this truth that my uncles taught me already when I was young, the truth of interdependence.

At the moment we are in this particular historical moment where for whatever reasons we are having this upwelling of materialism and tribalism and selfishness. I am sure these forces have always been present, but they seem to be having a little bit of a moment right now. I think that it’s important to people to speak and act in ways that contribute to common good, and for me this is also the way to live a really happy life.

Better Decision Making: Left/Right Brain in a VUCA world



Dr. Philipp Hensler

Ian Toner, CIO of Verus, recently said in a discussion with Dr. **Philipp Hensler**, President & COO of Epoch Investment Partners, that “at its heart investment is entirely about decision making. But because decision making science is fuzzy and isn’t easily or often quantifiable and doesn’t fit well into the spread sheet, it’s very easy for us to just brush it off.”

And decision making science—the emotional element, how to deal with uncertainty in the investment business, thinking about decisions and creating organizations that make decisions effectively—is the key to success, Toner continues.

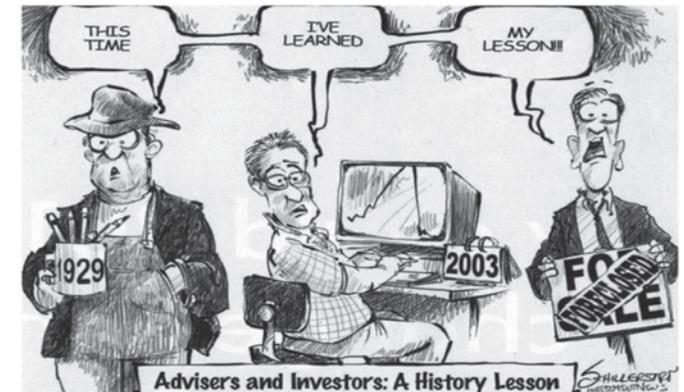
Seeking Alpha requires left and right brains

For his doctoral research **Philipp Hensler** conducted at **Case Western University** in 2010, he interviewed investors about their experience during the financial crisis.

“Not very surprisingly, everybody I interviewed said it was a game changer, that life will never be the same again, and *all the models investors used to rely on no longer hold true.*”

He then asked them to tell him what they had done differently since the crisis and 80% of the interviewees said that they had changed nothing at all.

Hensler said his first research paper was a discussion of how this 80% bridged this cognitive dissonance. The majority showed a *steadfast reliance to a rules based investment approach although despite the fact it had just failed them.* Regardless of whether the rule was based on an algorithm, a time horizon or an asset allocation methodology, they even showed an increasing commitment to it.



He noted that 20% of the interviewees, however, had done something fundamentally different since the crisis. He said this group had four characteristics:

1. They were women
2. They were focused on the present moment. They didn't argue with the past nor did they procrastinate into the future.
3. They were extremely alert and aware. They seem to have had an "environmental scan" i.e., constantly looking at what was going on around them.
4. And once they found something new, they were non-judgmental to that new information. "They didn't dismiss it just because it was outside of their mental model."

While the first point was interesting, Hensler's research focused on the last three dimensions, which showed that this group had a high degree of "contextual sensitivity".

This cohort was labeled by Hensler as the mindfulness group based on those three dimensions.

What surprised me was that "the behavior of the 80% resembled that of a passive investments, such as ETFs—they simply adhered to a predetermined rule irrespective of the changes in the environment," Hensler said.

This behavior can get you into a trouble if markets behave in unpredictable ways.

"To be clear, I am not dismissing passive investment strategies outright. There is a time for active and a time for passive investing," he said, adding that "if you believe in a future environment of synchronized growth and low dispersion of returns, it is perfectly rational to buy passive investments or ETFs. All you need is efficient access to equities market."

Unfortunately, the world is not that simple. It is far more uncertain, complex and ambiguous, and the term the military uses for such an environment is VUCA (Volatility, Uncertainty, Complexity and Ambiguity).

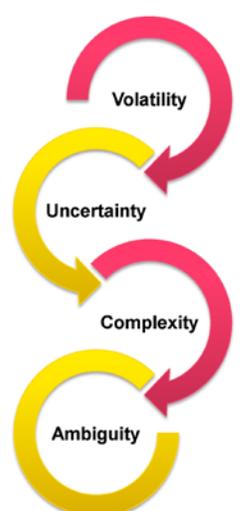
There are similarities between the armed forces and asset management, Hensler suggested: "NAVY Seals are extremely well trained, they are very, very skilled and have the best equipment and the most accurate intelligence at their disposal when they go into battle. But what happens is the moment they land in a danger zone, the environment can change in a heartbeat and if you are unable to adapt, you might actually die."

If NAVY Seals want to be successful, they must possess a high degree of contextual sensitivity to operate in a highly complex, non-linear environment. Similarly, financial markets can be erratic and irrational and investors need to be mindful if they want to

successfully navigate unforgiving market conditions.

Unfortunately, an entire generation of investment professionals have been brought up learning the concepts of neo-classical economic models. The problem is that these models rely on a normative world view that fail us every single time the market's behavior is outside the model parameters. While this has been well documented, what is surprising is that a large number of

The Future may be Characterized by a VUCA World



- VUCA was started by the U.S. military in the late 90s for the post-Cold War world
- Similarities between active managers and the Navy Seals:
 - Highly-trained
 - Well-drilled
 - Modern equipment at their disposal
 - Access to the best intelligence possible

BUT, if the environment changes in unpredictable ways, adapting quickly is necessary to survive. This requires Contextual Sensitivity.

investment professionals continue to rely on these models, despite their shortcomings. “Finance academics are still reliant on linear models and they believe that finance is a hard science like physics. In other words, they are suffering from physics envy.”, Hensler declared.

Unlike physics and other hard sciences, finance is a social science, which is subject to a “reflexive feedback loop.” We influence the system with our actions and in return our actions are influenced by the system. The interaction among actors in financial markets matters greatly.

Hensler posited that the neo-classical economic theory is ill equipped to deal with a VUCA world because it starts with a top down view how the system is supposed to work and deducts the optimal behavior of individuals. Although we know that this model doesn’t work, unfortunately, we haven’t come up yet with an alternative.

There is promising work done in many areas. One of Hensler’s favorite is the agent-based theory. It starts with a bottom-up view of how individuals actually make decisions and tries to incorporate emergent behavior, which can often times lead to non-linear outcomes “You look at the behavior of individuals and try to make sense of it.”

But “Finance” is Ill-Equipped to Deal with a VUCA World

Neo-classical economic theory	Agent based theory
Top down view	Bottom up view
How the world is supposed to work	How the world really works
Simplifying assumptions	Incompressibility
Linear thinking	Non-linear thinking
No interaction among actors	Emergence
Ergodic probability distribution	Context matters

Normative world view may lead to model blindness and rejects failure as exogenous shocks → no learning

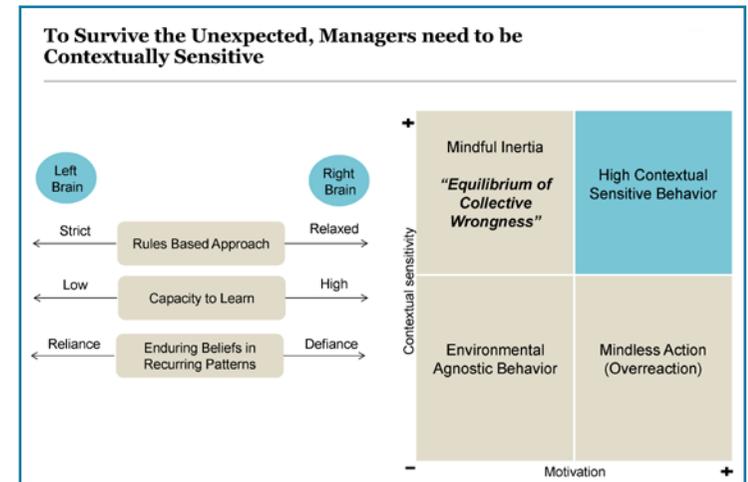
Left Brain vs. Right Brain

Hensler explained that though he has been juxtaposing the passive group and the active group, one could also term the groups the left brain group and the right brain group. “The left brain group is people that exclusively rely on algorithms and analytics based on historic data for decision making — a skill that computers do much better than humans, quite frankly. This approach works as long as the world behaves within the model parameters. However, I’ve found that if the market starts to misbehaving people with strong right brain capabilities—and based on my research that is especially true for women—they tend to adapt and absorb new information much quicker, which allows them to take decisive action when it

is needed the most.”

To be clear, investors that have strong right brain capabilities are also guided by investment philosophies and processes but they are not that strict about it, he said. “They have a high capacity to learn. They fail as well, they are not perfect. But when they fail, they start to realize what was going on and try to incorporate that learning into their decision-making processes.

Environmentally agnostic behavior, on the other hand, is often exhibited by investors that are not mindful or contextually sensitive, according to Hensler. “They have no motivation to make any changes because their rules are absolutely binding. Those would be true for ETFs or similar passive investment strategies, as an example.



So the question is how does one become contextually sensitive? Hensler said there is interesting research on so called high-reliability organizations (Weick and Sutcliffe, 2007) that might provide some guidance.

High-reliability organizations (“HRO”) operate under challenging conditions yet experience fewer problems than would be anticipated. They have developed ways of “managing the unexpected” better than most organizations, he said. He pointed to aircraft carriers and nuclear power plants as examples. “As you can imagine, one little mistake in the operations can have devastating consequences.”

Dealing with Black Swans: High Reliability Organizations

High-reliability organizations (“HRO”) operate under challenging conditions yet experience fewer problems than would be anticipated. They have developed ways of “managing the unexpected” better than most organizations.



AIRCRAFT CARRIERS

“Flight operations at sea is the closest to the “edge of the envelope”—operating under the most extreme conditions in the least stable environment...”

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NUCLEAR POWER PLANTS

“With nuclear power, the high energy density makes the potential hazard obvious...”

—WORLD NUCLEAR ASSOCIATION

Hensler said there are five traits exhibited by HROs can also be translated into asset management:

- **They have a preoccupation with failure**—They are always worried that something will go wrong and fight overconfidence along the way. Asset managers should always question their investment thesis and exhibit humility;

- **They are reluctant to simplify**—the world simply isn’t linear. Neo-classical economic models are beautiful, very elegant, but they just are not a fair representation of reality. Asset managers should

avoid linear extrapolation, have a strong commitment to forward looking fundamental research, and understand that ignorance and knowledge generation go hand in hand.

- **They have a sensitivity to operations.** “The best active managers only invest in companies, which business model and value drivers they fully understand in order to avoid unpleasant surprises.

- **They have a commitment to resilience**—asset managers should accept that failure is inevitable and learn from failures and adapt quickly.

- **To defer to experience**—that is almost the most important. Many of the large organizations in asset management are very hierarchical. However, some of the best asset management organizations have a rather flat hierarchy, an open communication culture where the best idea wins irrespective of rank.

What Does that Mean for Active Asset Management?

Preoccupation with failure	<ul style="list-style-type: none"> • Always question investment thesis • Show humility
Reluctance to simplify	<ul style="list-style-type: none"> • Avoid linear extrapolation • Strong commitment to forward looking fundamental research • Ignorance and knowledge generation go hand in hand
Sensitivity to operations	<ul style="list-style-type: none"> • Understand what drives investment results • Invest in companies with clear and transparent value drivers
Commitment to resilience	<ul style="list-style-type: none"> • Failure is inevitable • Learn from failures and adapt quickly
Deference to expertise	<ul style="list-style-type: none"> • Flat hierarchy • Open communication culture • Best idea wins irrespective of rank

Only a strong investment culture brings the above points together, Hensler argues. “I’m convinced that culture is one of the most important things in active asset management. We need to create a safe environment in which people feel comfortable to voice an unconventional opinion or point of view. That safety makes for very fertile ground to come up with interesting ideas that are the ingredient of successful active management.” Hensler concluded.

Climate Change: From Greatest Challenge Facing Mankind to Opportunity of the Century



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Thomas Stocker

Climate change is one of the greatest challenges facing humankind and will potentially negatively impact long-term financial investments and jeopardizes the business models of leading companies. I got sensitized to the theme of climate change by a talk of Prof. Dr. Thomas Stocker of the University of Bern, at the 2018 Swiss Asset Management Day in Pfäffikon.

In particular, agriculture will suffer, far more likely than is already the case in the current droughts.

Scientists show in a recent study published in the journal Nature Climate Change how exactly the soil moisture that is important for crops will develop as climate change progresses. If the earth warms by three degrees Celsius compared to pre-industrial times, the area of European drought will double from 13 to 26 percent in the reference period from 1971 to 2000. And with the exception of parts of Scandinavia, the biggest drought events will take three to four times longer than before.

Spain, Italy and Greece could turn into a desert

In Europe, the region around the Mediterranean would be particularly hard hit. Even with a warming of 1.5 to two degrees, the dryness expected in the Mediterranean is greater than ever before in the past millennium. If the warming reaches three degrees, southern Spain and probably Italy and Greece would be “turned into a desert,” according to a study published in the journal Science titled “Climate change: The 2015 Paris Agreement thresholds and Mediterranean basin ecosystems”. In fact, an analysis by the Spanish government anticipates that 80% of the Iberian Peninsula could have turned into a desert by 2100.

For some regions of the Iberian Peninsula, the average duration of drought would increase significantly from just over two to more than seven months a year. This also has significant consequences for the Mediterranean vegetation, biodiversity and the entire ecosystem. The level of water reserves in Spain, Italy and Greece has been falling since spring – the majority of the Spanish reservoirs hardly reach 30-40% of their capacity. Rainfall continues below its normal level, and the first signs of water scarcity have

already appeared: restrictions on irrigation were multiplied last summer in the main Mediterranean agricultural basins.

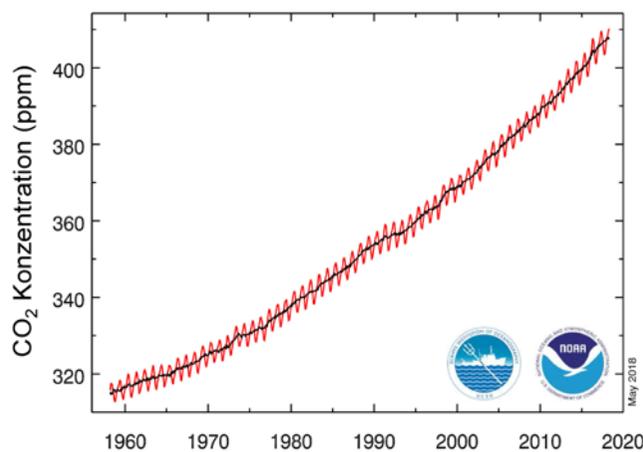
Why dryness and heat waves go hand in hand

Sonia Seneviratne from the Institute of Atmospheric and Climate Sciences at ETH Zurich explains that dryness and heat waves often go hand in hand. The warmer it is, the faster the soil dries up. And the drier it is, the less cooling evaporative heat is created. Dry soils are an important factor for extreme heat waves.

At the same time, Northern Europe is forecasted to become more humid; floods in winter could be more frequent. These risks of heat waves, floods or sea level rise are being acerbated in urban areas, where four out of five Europeans live.

Sonia Seneviratne said the risk of drought is currently still low compared to what can be expected with a warming of 1.5 degrees, two degrees or even three degrees. The aim of the Paris Climate Agreement is to limit global warming to below two, if possible even below 1.5 degrees. "However, the promises of the countries participating in the Paris Agreement would result in a warming of around three degrees, which would lead to a significantly greater drought risk than we have today."

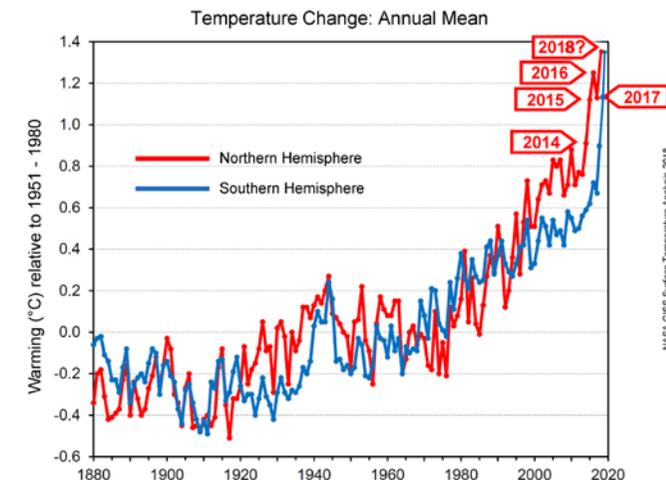
CO₂ Mauna Loa, Hawaii



The carbon dioxide data (red curve), measured as the mole fraction in dry air at the Mauna Loa Observatory, Hawaii, constitute the longest record of direct measurements of CO₂ in the atmosphere. The **black curve** represents the seasonally corrected data.

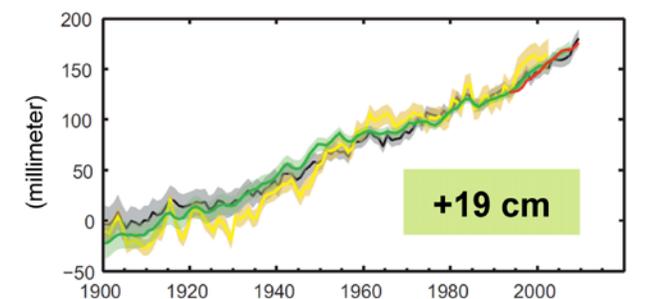
But, some may ask if the data measured since 1958 isn't just a natural occurrence caused by greater cycles? Unfortunately not. By examining air particles captured in arctic ice, scientists could measure the CO₂ concentration of the past 800,000 years which is now 35% higher than any previous high.

Temperature is already up over 1.5 degree Celsius since 1910 and will keep rising:



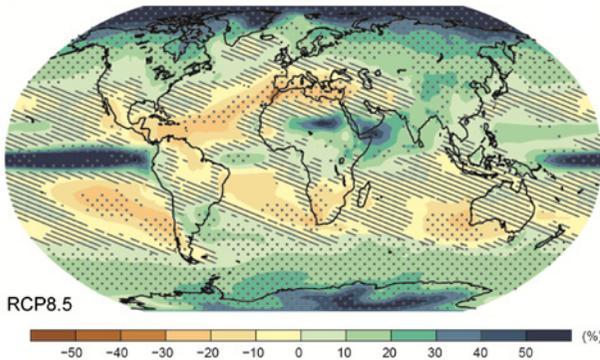
This in turn contributes to the rise of sea levels. At the moment, Greenland loses around 1 cubic kilometer ice **per day** (that's 1000000000000 liters), while the amount of ice lost annually from Antarctica has tripled since 2012 to 241bn tons a year.

Increase in sea level since 1900

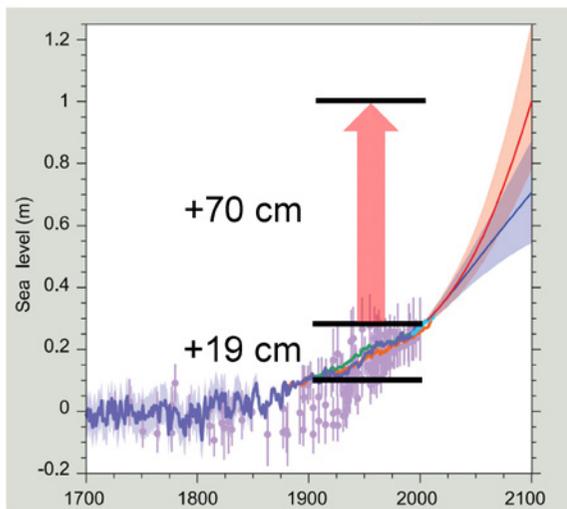


Resource Water: Drought and Water Stress

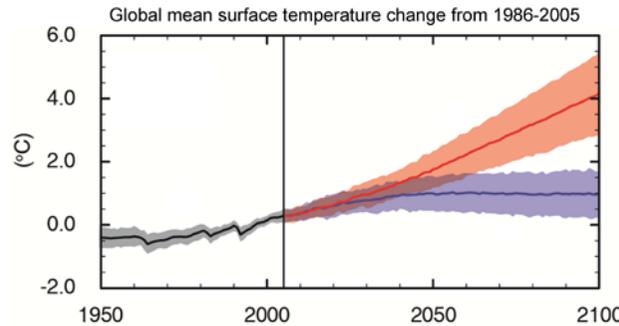
Change in Precipitation (1986-2005 to 2081-2100)



Resource Land: Loss of Home and Habitat



“Business as usual” means that further warming increases the likelihood of severe, pervasive and irreversible impacts.

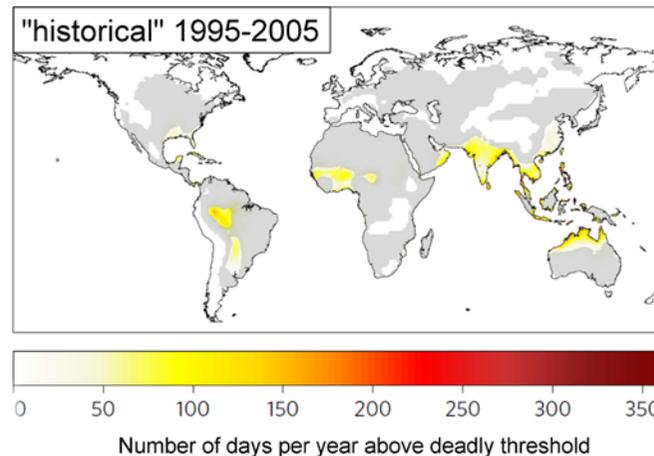


Further warming will increase the likelihood of severe, pervasive and irreversible impacts

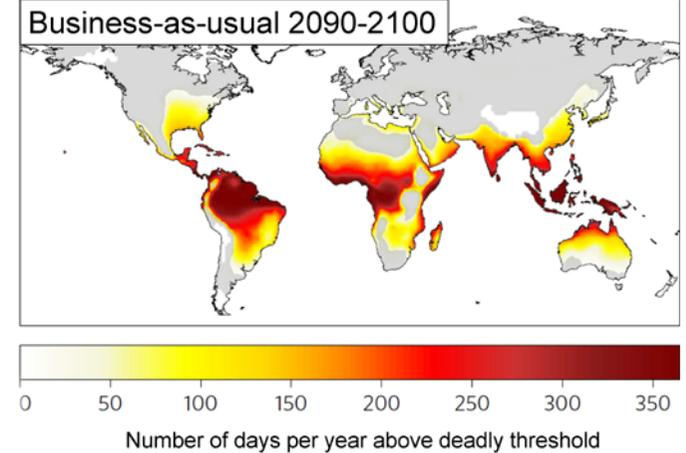
Heat making large parts of earth uninhabitable

The number of “Dangerous Heat” days where the temperature is above the deadly threshold will go up, as will the landmass affected by super heat:

Resource Health: Dangerous Heat



Resource Health: Dangerous Heat



Even keeping the 2°C Paris limit will cause high stress in some regions, but this could be manageable compared to the prospect of unfettered CO2 emissions which could turn some of the most populated countries and continents uninhabitable. Remember that according to United Nations “medium scenario” demographic projections, more than 4 billion people could live in Africa in 2100.

\$1 trillion of US property projected to be underwater by 2100

Almost any resident of the Miami area has a story to share about flooding, and many will have more than one. They will tell you that floods happen more often, and the data confirms this.

The Sea Level Rise Work Group puts the most frequently-used range of estimates between 15-25cm (6-10in) above 1992 levels by 2030, and 79-155cm (31-61in) by 2100. The Union of Concerned Scientists said: "Sea levels are rising. Tides are inching higher. High-tide floods are becoming more frequent and reaching farther inland. And hundreds of US coastal communities will soon face chronic, disruptive flooding that directly affects people's homes, lives, and properties. Yet property values in most coastal real estate markets do not currently reflect this risk. And most homeowners, communities, and investors are not aware of the financial losses they may soon face."

According to Rice University, FEMA flood maps missed 75% of claims. Property owners in low-lying states should therefore take notice. The Union of

[Concerned Scientists published an helpful interactive map showing how many homes are at risk by state, community, and ZIP Code.](#) The maps also show the current property value, estimated population, and the property tax base at risk.

This scenario uses federal data from a high sea level rise scenario projected by the National Oceanic and Atmospheric Administration, and combined it with property data from the online real estate company Zillow to quantify the level of risk across the lower 48 states. With planet-warming emissions barely constrained and the seas rise by about 6.5ft globally (78in or 1.98m) by the end of the century, 311,000 homes along the US coastline would face flooding on average 26 times a year within the next 30 years. The losses would multiply by the end of the centu-

ry putting as many as 2.4m homes, worth around a trillion dollars, at risk. Low-lying states would be particularly exposed, with a million homes in Florida, 250,000 homes in New Jersey and 143,000 homes in New York.

More than 500 American communities - or 10 percent or more of livable land area with 13 million people - will be at risk of *flooding annually* by 2100 on account of rising sea levels, changes in land use and population growth.

Dr. Leonard Berry, Vice President and Co-founder of consultancy Coastal Risk, said that apart from the flood risk, "the economic impact of wildfires in the U.S. is accelerating rapidly, reaching nearly \$5 billion in 2017 [and probably higher in 2018]. More severe



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and regular wildfires can be expected as climate change makes forests and ranchlands drier. In addition, "Tornado Alley" in the Midwest causes hundreds of deaths and millions of dollars in damage. Knowing a property's exposure to extreme weather and climate effects has never been more important."



© F5 tornado, wild fire, thunderstorm lightning, flooding, hurricane, ice storm, giant hail

The study by Hauer, M. E. et al. (2016) "Millions projected at risk from sea-level rise in the continental United States" says that without adequate sea defenses, scores of people will be forced to relocate, on the scale of the Great Migration in the US during the 20th century where around six million black Americans left the southern states to escape persecution.

But rising coastal populations will make defending or relocating people more difficult and expensive: Not only could the costs of relocating a community be greatly underestimated if that population is growing, but the challenge of finding suitable areas for relocation could be problematic as well.



© U.S. Geological Survey

Why climate change is the opportunity of the century

According to Professor Stocker, combating man-made climate change may soon turn into the greatest business opportunity of this century. All countries have agreed that warming should be held well below 2°C and efforts should be made to keep it below 1.5°C with CO2 emissions falling to zero by 2050.

Increasing greenhouse gas concentrations in the atmosphere are responsible for the warming of our planet. Emissions of CO2 from burning of coal, oil and gas are the dominant cause of the warming of the past 100 years and consequent world-wide climate change. Therefore, limiting climate change requires substantial and sustained reductions in greenhouse gas emissions, as was stated by IPCC, the Intergovernmental Panel on Climate Change in 2013. To keep the warming limited and avoid climate change disaster and unmanageable damage, a rapid transformation from a fossil-fuel based economy to a circular economy based on renewable energy must take place.

"This is a global effort and constitutes no less than an Industrial Revolution", says Professor Stocker. He explains that all previous industrial revolutions have changed the distribution of power, wealth, and lifestyles. But they were also unprecedented business opportunities for those who assumed early and

determined leadership. The 4th Industrial Revolution, Decarbonization, will create smarter products, new jobs and markets, better life quality and new values and lifestyles. All stakeholders need to be part of the Decarbonization. "Those leading it will reap the greatest benefit, those combating it or waiting it out, will be left behind", notes Professor Stocker.

Collecting Warhol with Jim Hedges: From Curiosity to the Depths of Obsession



James R. Hedges, IV

James R. (“Jim”) Hedges, IV was one of the early leaders in the hedge fund and alternative investments industry, and is the author of *Hedges on Hedge Funds*. He was the Founder, President, and Chief Investment Officer of LJH Global Investments, LLC, an alternative investment advisory firm which he sold in 2010.

Jim Hedges has been an active art collector and patron for over 20 years. With a specialized focus on photography by Andy Warhol, Jim has acquired and placed more Warhol photography than any other collector, private dealer or gallery in the world.

Jim has served on The Drawings Acquisition Committee at the Museum of Modern Art, as a National Council Chair for the Aspen Art Museum, a member of the National Committee of The Anderson Ranch, a Director of The Aspen Institute’s Arts Panel, as a Trustee for The Drawing Center, a Founder of The American Friends of the Tate Gallery, a Founder of The Aspen Conversations, a Trustee of The DIA Foundation, a Trustee of ArtPace, and member of the National Committee for the Whitney Museum of American Art. He is also a former Director of The National Public Radio Foundation (NPR).

Hedges has also assisted in the publishing of artist monographs including Sigmar Polke, Robert Mangold, Sol LeWitt, Ed Ruscha and numerous others. Hedges has supported artist’s retrospectives including Roni Horn at The Whitney Museum of American Art and Sol LeWitt, at the same venue. Support has also been provided to Carl Andre and Sol Lewitt exhibits at The Aspen Institute. Hedges has also made donations of numerous artworks to major institutions such as The Whitney Museum of American Art, The Museum of Modern Art, The Menil Collection, The Dia Foundation, The Tate Modern, The Hunter Museum of American Art, The Baylor School, and Girls Preparatory School. In 2016, Hedges made a gift to The Archive of American Art at The Smithsonian of “The Jimmy Hedges Papers on Outsider Art,” the largest collection of curatorial research materials on Outsider Artists. The Archive will serve as a permanent resource for students, curators and collectors of Outsider, Self-Taught and Folk artists.

Hedges’ activities in the art world led *Art and Antiques* magazine to name Mr. Hedges as one of “The Top 100 Collectors in America.” He also served as President of The Hedges Family Charitable Foundation. Hedges Projects has also published numerous editions with artists in Andy Warhol’s inner circle including Christopher Makos and Sam Bolton.

Matthias Knab: You are known as the global top collector for Warhol Photography, can you tell us how you got involved in collecting these photographs?

Jim Hedges: I was very fortunate because I had been collecting some Warhol material in the 90's and the early 80s, and I started to get very obsessed with Warhol's Polaroids. These were the portraits that he would make of people either outside in social environments or in his studio, "The Factory," and I initially wanted to purchase just a couple of them. Then I was introduced to some wonderful folks at The Andy Warhol Foundation for Visual Arts. Joel Wachs runs that organization and he has done an incredibly great job with the Warhol Estate and the grant-making that they do out of the Foundation now.

When I was introduced to Joel, I was able to go into the Foundation and began to purchase directly from them, which was something that very, very few people were awarded the opportunity to do. So, I've

always felt so fortunate for being able to have this access.

I began rather modestly. I bought probably a handful of Polaroids and then the more time I spent at the Foundation, the more I learned about the material and the deeper appreciation I had for photography's role in the artist's overall work, that irresistibly led me to wanting to do more-and-more.

Myself along with some friends got together and we started purchasing very large quantities of Warhol photographs either from the Foundation, and then I also bought from other private collectors. Over the course of a decade, I put together what is reputed to be the largest private collection of Warhol photographs in the world.

I did this through various acquisitions from both the Foundation, private dealers and other private collectors. Then I began showing the work. Around 2010, I started partnering with leading galleries around the

world at art fairs and/or dedicated exhibits to showcase this work and really get it seen by a broader audience. I was working with these leading galleries and supplying them with consignments so that when you went to Art Basel or Frieze or The Armory Show and you saw these Warhol photographs, chances are good that many of them came from my holdings; additionally, I began working with some art collecting institutions to help them acquire certain works, and I have been involved with some of the world's most esteemed institutions in that respect.

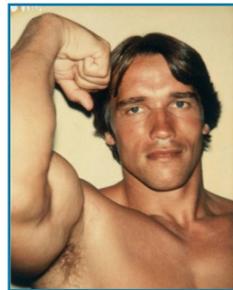
Finally, I also wanted to get the work in front of the people in unexpected places. I partnered with various hospitality and retail companies for the display of this work. So since 2010 I have mounted a few dozen different types of exhibits or showcases of Warhol's photography, and it's fair to say that nobody else in the world has shown as broadly and created more opportunities to see Andy's photos during this period than I have.



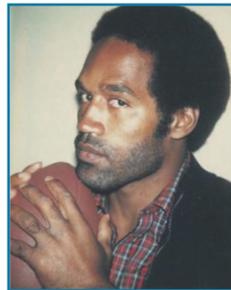
Debbie Harry



Farrah Fawcett



Arnold Schwarzenegger



OJ Simpson



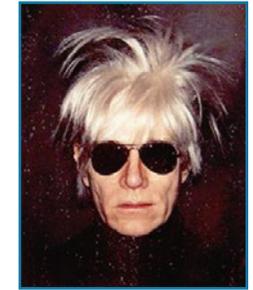
Diana Ross



Bianca Jagger



Robert Mapplethorpe



Andy Warhol

Matthias Knab: Your father Jimmy Hedges went from real estate to becoming an artist and well known art collector, and you were a pioneer in hedge funds of funds and are today recognized as one of the “The Top 100 Collectors in America.”

Let’s look back for a moment, can you recall how you personally got interested in art for the first time, and what was the role of your father in that?

Jim Hedges: The story is really best told by art collector and author Tiqui Atencio, who wrote about the Hedges Family collecting legacy in her book, “Could Have, Should Have, Would Have,” which profiled a group of well-respected collecting families around the world.

My memories of my family’s interest in collecting begin with my great grandmother, “Dot” Hedges, who not only founded the Hunter Museum in our hometown of Chattanooga, Tennessee, while she was President of the Arts League, but she was herself a remarkable collector, a woman who built her own French chateau on Lookout Mountain filled with imported boiserie and marble floors and priceless 18th century French antiques and paintings. Her zest for collecting set the stage for what would follow.

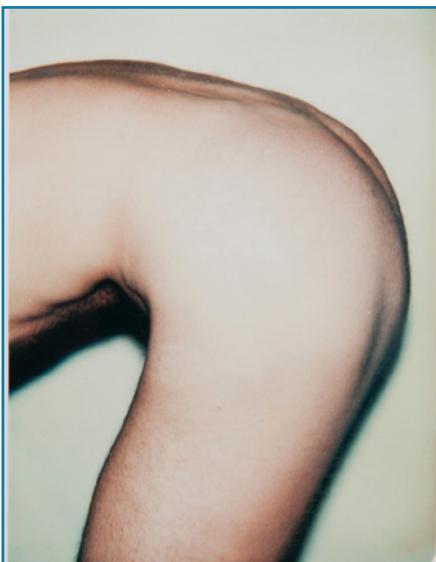
Later, my grand mother, Lee Evans, spent approximately 50 years as a docent teaching school children about art in the museum. Her gentle and approachable manner literally opened the eyes of tens of thousands of young people (including me) to art history and how they could nurture their own creative spirits. As for my father, Jimmy Hedges, III, was an artist, mostly a sculptor, who was introduced to self-taught artists in the South. With a respect for the creative humanist spirit, he supported artists and ultimately amassed what has been called the largest outsider art collection in the world, comprised of over 2400 objects including African American art of the South, American Indian art, Haitian art, Tramp Art, art of the developmentally challenged and art of those imprisoned. I inherited his collection at his death in 2014, and I have made a number of gifts to art collecting institutions of works from his collection so that his legacy and that of the artists he sought to support would be protected.

When I began collecting, I was really eager to forge my own path and began with collecting photography. In the late 1980’s, it was a relatively small and inexpensive segment of the art world- a great place to cut one’s collecting teeth. In time, my tastes and financial commitment increased, so now I view collecting as a creative expression in my life as well as a stewardship of the gifts I’ve been given by my family, and of course, it’s also a sensational investment!

Matthias Knab: Coming back to the Warhol photos, can you recall a certain exhibit or project that you did that stuck with you, that was special in a way?

Jim Hedges: I’m very proud of the fact that I took one body of a very under recognized and under-appreciated work called “Sex Parts” and “Torsos.” Andy Warhol would make nude photographs which he called “Landscapes” and depending upon whether or not they were explicit or were just classical, he would call each one of the photos either a “Sex Part” or a “Torso.” These works were made for the most part in 1977 when Warhol took these Landscapes and created the Sex Parts & Torsos Polaroids, he used those images for making prints as well as paintings. The photograph was always source material for a print or a painting over the years, and at the time if he was always central to that.





The first painting show of Sex Parts & Torsos happened in 1977 at ACE Gallery here in Los Angeles, and it was very surprising and shocking to the world. After the show at ACE Gallery it was then moved to the Grand Palais in Paris. My collection of Sex Parts and Torsos were later showcased at the Grand Palais in Paris as well, and seen by tens of thousands of visitors.

I took 99 of these Sex Parts & Torsos, and framed them and hung them very, very tightly in a grid, and we displayed them during FIAC. So 35 years after the original show at the Grand Palais, some of these Sex Parts & Torsos material came back to visit again, and it was quite well-written about in the press. It was a wonderful, wonderful moment that I was very proud to put together.

Matthias Knab: Were you ever in touch with Warhol himself or someone that was close to him?

Jim Hedges: Unfortunately, I never had the opportunity to meet Warhol. I was slightly too young to have been in that world at that time, but I have gotten to know an enormous number of people in his world.

Certainly Pat Hackett, who was the editor of The Warhol Diaries, and co-author with Andy Warhol's POPism, and was Andy's confidante for the better part of three decades.

Pat and I have become very dear friends, and she probably has, more than anybody out there, a profoundly deep encyclopedic knowledge of all things of Warhol, what he was doing, how he moved in the world, and what he really thought about people.

Pat is a remarkable wellspring of education and context. Frequently, I have been able to go into Pat and say, "Here is this photo. I don't know who this person is," and she goes on to say, "oh, that's so and so" or "that was the time that Andy did such and such;" that's been hugely valuable. Of course, I've met lots of other people in Andy's world.

Tim Hunt ran all of the photography sales at The Warhol Foundation. He is a wonderful guy who passed away this past year. I have gotten to know Vincent Fremont, of course, also Ronnie Cutrone, who was a painting assistant for many years. I've had

interesting contact with "Little Joe," (Dallessandro) who is the famous Warhol film star. I have gotten to spend time with Brigid Berlin, Bob Colacello, Sandy Brant and her former husband, Peter Brant. All of these relationships have proven so valuable. I have really been able to immerse myself with those people that were closest to Andy.

The other thing about owning this work which has been hugely, hugely gratifying is that a lot of times people who were the subjects of the photos have learned of my holdings and have called me up and said, "I'd love to see that photo" or "can you get me a copy of such a thing."

The people are sort of luminaries such as people like Diane Von Furstenberg, Bianca Jagger, Calvin Klein, Diana Ross and Bruce Weber. Bob Colacello is another one that was deeply in Andy Warhol's world, and I have gotten to know





Bob, who also made some wonderful photographs when he and Andy were out socializing. Christopher Makos is another one that was very much in that world with whom I've become friendly. Christopher and I actually collaborated where I produced an editioned print collage of Debbie Harry, Andy Warhol and Halston.

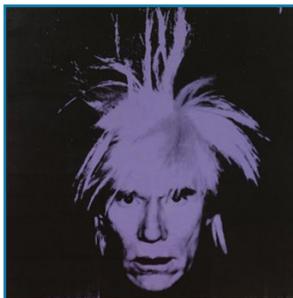
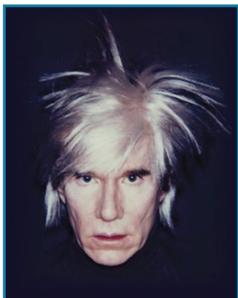
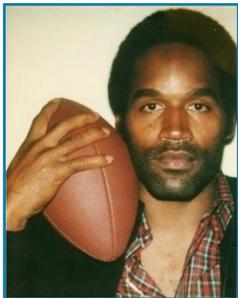
Essentially, I have met and had quality time with virtually everybody that was in that inner Warhol circle who is still living.

I also have lots of mutual friends with Jed Johnson, who was one of Andy's boyfriends, who perished aboard the TWA 800 flight. Fred Hughes, of course I never met, but most of the others that are still living, I have managed to know.



Matthias Knab: Can you explain some of the differences between Warhol's Polaroids compared to his 35 mm unique silver gelatin photographs?

Jim Hedges: I am so happy to talk about that. A little bit of history is probably helpful. Andy Warhol carried a camera with him throughout the 60s, 70s, and 80s. Around the late 1960's Warhol began carrying a Polaroid camera with him as 'his date' in order to document subjects. So actually, prior to what appears to be about 1976, he was always carrying a Polaroid, and especially the Polaroid "Big Shot," became a tool in Warhol's broader art-making practice. Polaroid portraits and still-life's were staged in The Factory, which served as source material for prints and paintings.



In the mid 70s Warhol started using a 35 mm camera that was given to him by Thomas Ammann, the Zurich art dealer, with which he created unique silver gelatin prints mostly printed in 8-inch by 10-inch format.

In the Factory, Warhol would very frequently take the Polaroid pictures of his subjects, whether it's an inanimate object like a banana or pictures of paintings in the Factory, an actual celebrity or somebody that was commissioning a portrait. When would do that, very frequently, he would also take black-and-white 35 mm photos of the exact same scene. Many times I've had a Polaroid of a subject and a 35 mm photo of the same subject, in the same place, probably taken within seconds of each other. Then finally, you see difference in the paintings that are made from the same sitting. So, it's a wonderful arc.

The 35 mm black-and-white film probably tells you more



about Andy's life and Andy's obsessions and fascinations than any other part of his work. Andy was compulsive with his use of the camera. You see that he took photos of people when he was out at night life and events. You see that there were certain things that he became obsessive with. For instance, whenever he travelled, he clearly didn't like to be alone, and so he kept himself busy by taking photos of a lot of recurrent themes. You see that when he was in a hotel, he often took pictures of toilets, bathrooms, room service trays, chandeliers, a whole host of things, and it's interesting because when you look over the course of years and dozens of trips more, you see that Andy was always sort of attracted to these objects when he was alone with time to concentrate and reflect on the subjects.

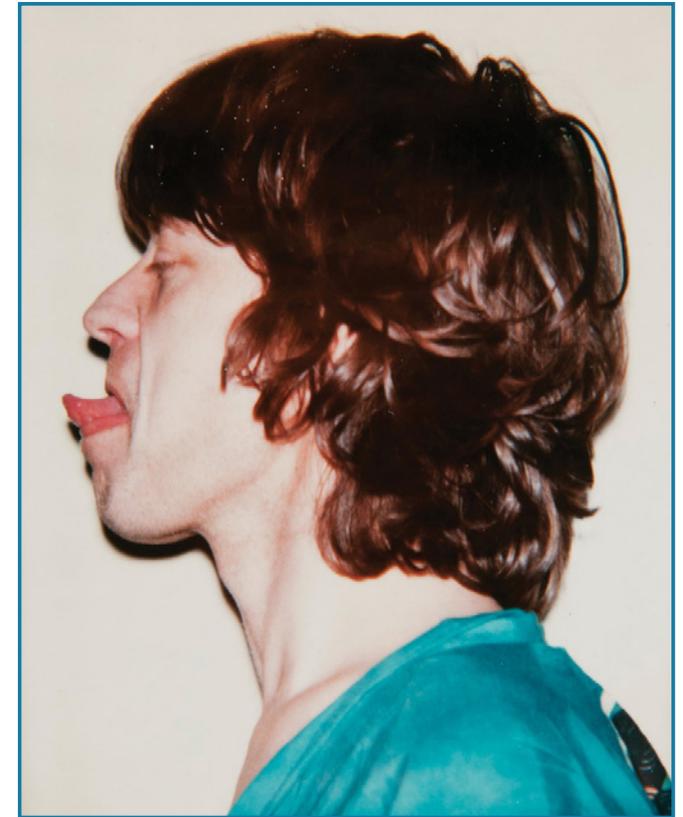
The other interesting thing about the 35 mm work is that you see certain pockets of Andy's life well-documented. For instance, Andy owned a house in Montauk, a beautiful, very traditional estate out at the end of Long Island with Paul Morrissey, the filmmaker. He very frequently documented his time at that home, and the people that visited.

Another example is that Andy had a close relationship with John Powers. John and Kimiko Powers were a very famous art-collecting couple who lived in Carbondale, Colorado just outside of Aspen. Andy went up there a number of times to see him and would document those trips, and sometimes he would have

a boyfriend around, mostly his last boyfriend Jon Gould or other friends. Similarly, he created a nice photo journal of Aspen and its surroundings, just like he did with Montauk and its surroundings and people.

Matthias Knab: And the feedback that you got from general audience, can you tell us how that was? Have you had a chance to talk to people who are interested in buying his work outside of the circle of people who have been working with Warhol, for example?

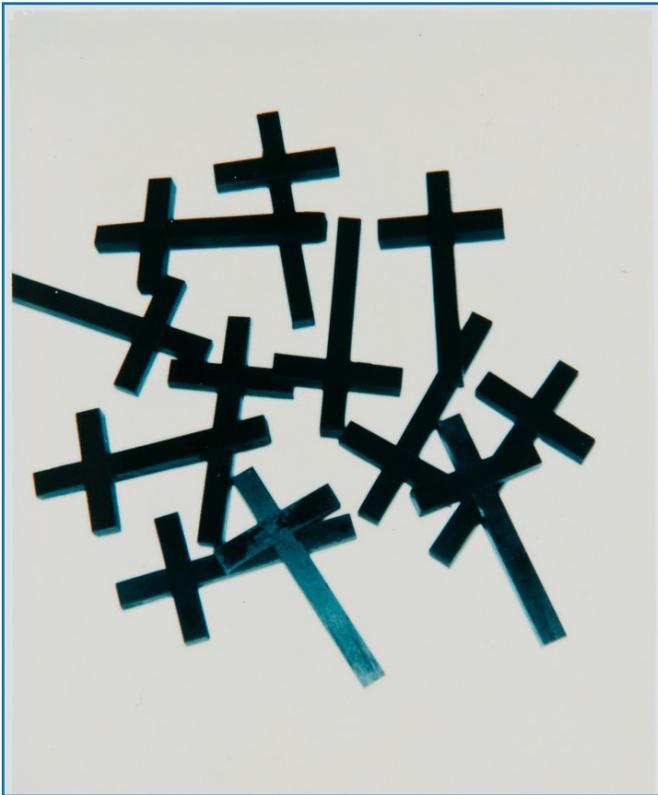
Jim Hedges: That's why I say there is a Warhol for everyone. If you think about the real breadth of things that he photographed; everything from a celebrity like Mick Jagger or Jean-Michel Basquiat to a Still Life of Bananas or Eggs, to toys, to things that appeared in his prints. You have got virtually every type of subject matter documented by Warhol, and because of that you will never cease to be surprised by who is really attracted to a particular work. I will give you an example. I had purchased a number of Polaroids that were tied to the set of great athletes that Warhol documented in a print series done with Richard Weisman. I bought these photos and I thought well, you know, there are some stars and there are some duds and all-in-all, it's interesting to have a number of selections of the ten subjects.



Much to my surprise, I had Polaroid photographs of Dorothy Hamill, the figure skater, and I could have sold 20 of those photographs. The reason is that ladies, of a certain generation, were attracted to that iconic haircut that she was known for.

That's sort of a fun example of something that you think would never be iconic, but then, in fact, it was an obsessive level interest in that subject. I could tell you that kind of a story a dozen times over.

Everybody loves to see Bianca Jagger, Keith Haring, Debbie Harry or Grace Jones, those are the blockbusters. On the other hand, you would be surprised at how many people want to see a Polaroid of Teddy Kennedy or who want to see a Polaroid of crosses. Warhol was a Catholic and he took all these photos of crosses randomly laid out, to create what are beautiful minimalist images, often abstracted. I tell you lots of fallen Catholics have found that work very appealing! So there really is a Warhol for everyone.



Matthias Knab: Going back to the exhibitions that you organize, where can we see them next?

Jim Hedges: Well honestly, I am always at work, trying to find places and moments to showcase this exceptionally broad diverse group of works. Right now a lot of the art world are expecting a very important Warhol show at the Whitney Museum which Donna De Salvo is curating and will open in November 2018.

This is the first major retrospective show of Warhol's work in a museum since before Andy's death in 1987. Donna De Salvo was involved in that exhibit as well. It's interesting to think about what's going to be shown, because of course, the world really knows so much of Warhol's iconic work. As I understand it, this show is really dedicated to those under-appreciated or under-recognized areas. Andy's photography is clearly central to that. Warhol only had one gallery photo exhibit during his lifetime which opened six weeks before his death. Pat Hackett, Warhol's confidante, has told me that Andy was getting ready to make photography his next big push and to begin showing this work in the context of fine art more broadly.

It has been photography – whether it's photo booth strips or Polaroids or the 8x10s that are black and white – which has been less studied than any other

part of his artistic output, in spite of the fact that photography was, for Andy, central to every aspect of his art-making process. I suspect that we will see a big moment at the Whitney for photography.

Of course, there is also a new project at Stanford, where they have digitized Andy Warhol's Contact Sheets, from the 35 mm film. They are publishing a book coming out at the end of September 2018, which will be very interesting.

I think between the Stanford exhibit and book, of their digitalization project and the Whitney show, we are going to have a big moment. Naturally, I will be having a gallery show in New York City in the late Fall to capitalize on this momentum.

I feel it's important to see and appreciate my collection as broadly as possible, and I think there is a Warhol for everyone. His work resonates with lots of people in lots of different settings. As I said before, I am trying to do many things in many different ways: I have partnered with galleries, I have partnered with institutions, I have partnered with hospitality and retail companies, I am doing online sales, all of this has really cast a very broad net for people having the opportunity to come in contact with the work.

Matthias Knab: I read a couple of interesting articles that suggest Warhol would have been very attracted to Instagram or other social media as a means to use photography. What is your view on that, given that Warhol had six ways of producing photographs back in the day when computer was right in its beginning, What do you think he would have thought of Instagram, for example?

Jim Hedges: I remember one time when I had a conversation with another multi-disciplinary artist, Jack Pierson, an exceptional artist, who like Warhol has had a huge breadth of artistic output and has done so in multiple mediums and in multiple chapters of his life.

Jack was talking about using the iPhone as a camera, and he just held it up to me and he said, "You know, this is what everybody uses now. This is how people see the world, and I am going to use this as an art making tool as well."

And when he said that I thought how very Warholian! I could imagine Warhol taking the same approach.

The only thing that I would add is I think it's important to keep in mind what the implication of this work being under-appreciated and understudied, so far, has been. And that's that it's an extraordinarily good value. Photographs routinely sell from a few thou-

sand dollars to maybe \$75,000 to \$100,000, depending upon what we are talking about, but that's really the full breadth of the market. Most photos probably sell for \$10,000 to \$20,000, maybe \$25,000.

Remember, these photographs, whether it's a black-and-white silver gelatin print or a Polaroid, these are unique, singular objects. It's not an object that has been produced from serial repetition.

If you compare a unique object of a Polaroid that costs \$15,000 or \$20,000, that is the source material for prints and paintings, that might represent one tenth the cost of a print or even one one-thousandth the cost of a painting. That doesn't make any sense to me. That photograph is a unique object. The print that was made from the photograph may be one of several hundred in the world, whereas the photo is one-of-a-kind. Just in terms of rarity and singularity, I think photos are hugely undervalued.



Matthias Knab: Well, you are taking about I think state of the art market in general, but maybe Andy Warhol would be the perfect example for that.

Jim Hedges: I think that's right. You see a lot of valuation disparities amongst artists' body of work, which has informed much of my investment premises in the art world.

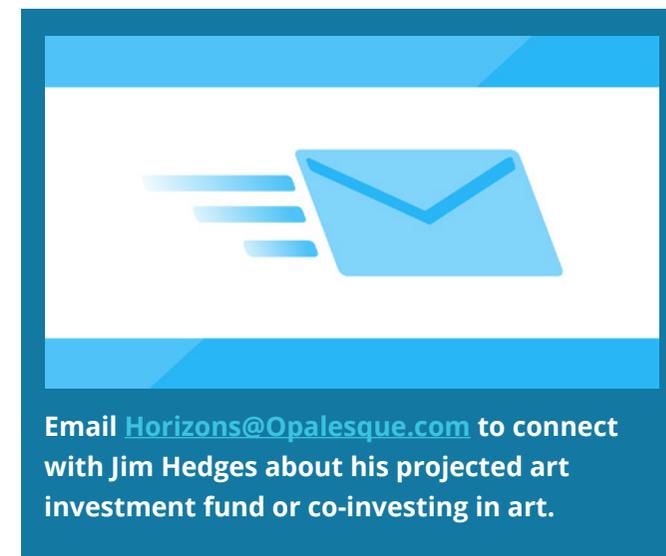
Another example is the photography of Cy Twombly. This is exceptionally, exceptionally beautiful work and clearly very important work to the artist, but for years, Twombly photos sold for ridiculously low prices relative to the artist's other work; I began buying Twombly photos for around \$12,000 each, and now, they have gone up about eight-fold in the past few years. I still think they are a great deal compared to the fact that a good drawing might start at a million dollars.

Matthias Knab: We talked a lot about art as a passion, let's look at the financial aspects of art as an investment. You have a great track record in that as well, how can people benefit from your expertise?

Jim Hedges: Investing in art takes many forms. Buying out-of-favor blue chip art is a strategy I've implemented with Warhol, Twombly, Richard Serra, Sigmar Polke, Ed Ruscha, and dozens of other artists. When I invest in equity of art, I am looking to make a minimum of 3 times my investment, and typically the returns are between five and ten times my capital invested. Additionally, I have been a provider of debt capital to individuals, private collectors and private dealers, needing to borrow against their collection of inventory. Typically, these are very high quality, short-duration loans, with very high interest rates which have produced greater than 30% IRR's for my investments since 2010.

Investing in art requires very deep domain expertise, and it is a landscape veiled in privacy/secretcy and preferential access. With nearly \$100 billion of annual turnover, the art market may be the largest financial market free from regulation and oversight. The combination of these factors creates enormous opportunities for investors in the space.

I'm now planning to launch an art investment fund which will capitalize on these opportunities in a more scalable way. In the past, I've co-invested in art with a handful of family offices. Now, I hope to broaden that network of investors and approach larger potential transactions.



How to Make Your Family Business Last Across the Generations - Part I

It wasn't raining when Noah built the Ark: Prepare for family business quarrels now



Mitzi Perdue

Mitzi Perdue is the daughter of Ernest Henderson, the man who built the Sheraton hotels from one hotel to more than 400 during his

lifetime and was the first hotel chain to be listed on the New York Stock Exchange in 1947. She is also the wife of Frank Perdue whose promotion of the Perdue brand through high-profile advertising resulted in creating the first well-known brand of chicken in the U.S. While Frank is now recognized as a visionary – branding his Perdue Farm chickens with his own name and being the first to put a name tag on them – Mitzi says that as much as she admired him for his success in business, she admired him even more for his success as a family man. Mitzi is also a businesswoman in her own right. She started the family wine grape business, now one of the larger suppliers of wine grapes in California.

Mitzi likes nothing better than to share insider tips for successful family businesses. The Hendersons started their Henderson Estate Company in 1840 and her Perdue family started in 1920 in the poultry business. These two families have a combined tradition of 278 years of staying together as a family.

There's no such thing as a family business without conflict. If you Google "family business feud," in less than a second, you'll get roughly 1.2 million hits. And that, of course, is the tiniest fraction of the number of family business disputes that do not show up in the Google search engines.

At their worst, a quarrel in the family business can become a threat to everything the family business holds dear, including relationships, wealth, and position in the community. Seventy percent of family-owned businesses won't make it to the next generation, and the biggest reason for this sad fact is family quarrels.

Since every family is going to have conflict, the fundamental question is, how do you deal with these quarrels so that they don't cause lasting damage?

Develop a Covenant Culture

An answer that has worked for many family businesses is to create a covenant culture. Do it long before it's needed.

In a family business, this means that family members covenant with each other that while they have a right to air their disagreements when a decision is made, they come together. They agree ahead of time to close ranks and move on. Part of a covenant culture is, everyone gets to be heard. Participants agree to listen to all sides and to value robust discussion.

Another essential element—possibly the most important—is a commitment that issues will be resolved within the group. The reason for this is, in cases where members of a family business go to the media or get into litigation to resolve a conflict, they are likely to unleash an uncontrollable chain of events that predictably will endanger the entire family enterprise.

By the time a family business member exposes a conflict to the press or initiates litigation, there's usually no turning back. The chances of reconciliation are so slim that many family business professionals will not take on as a client a family business that has reached this stage.

At this stage, when the family is in litigation or dueling it out in the press, chances are that family business is on its way to joining the 70% of family-run businesses that don't make it to the next generation. What's all important is preventing conflicts from reaching this stage.

Ways to Prevent Out of Control Family Business Conflict

Since conflicts are inevitable, what can members of a family business do to support having a culture that commits to keeping quarrels within the family? The answer is that the business family needs to consciously work on developing a culture for resolving conflict. Culture is, "How we do things," and if the important work of developing a strong, supportive culture is left to chance, members of the family business may never learn key attitudes that they'll need to keep disputes from escalating. Without ways to keep conflicts from escalating, a covenant culture is not possible.

Developing a positive family business-friendly culture requires time together, discussions, and above all, role modeling. To prevent disputes from getting out-of-hand practice these six attitudes and techniques.

1. Take a moral stand that it's wrong to move disagreements outside the family.

The experience of many thousands of family businesses shows that once a family starts down the road of a public dispute or litigation, the usual end result is the end of the family business. Positions harden, reason goes out the window, and it's a rarity for any members of any family business to change course. The usual end point is either a drastic weak-

ening of the business or its complete destruction. Members of business families need to know that it is morally wrong to be the cause of this.

2. Let family members know that this isn't just about their wishes.

Because any public acrimony in a family business so often leads to the company's failing, it threatens the well-being of innocent bystanders including the company's employees, stockholders, lenders, and even the tax base of the community. Members of family businesses need to know they have a responsibility to large numbers of people beyond themselves.

3. Emphasize the concept of "Family First."

Family businesses are unlike regular families, because in the tug of war between individualism and being a member of the group, there needs to be a different balance. Members of a family business have a different level of responsibility because their actions influence all the stakeholders involved in the business.

4. Put relationships ahead of ego.

Members of family businesses need to know that there are times when they have a choice between getting their way and having a relationship. Being a

member of a family business at times means sacrifice, and for the business to continue, this can mean giving up the ego gratification of getting their way. However, in return, they'll get something of vastly greater importance—the chance for the family legacy to continue and thrive.

5. Compromise is key.

Members of a family business need to learn to listen to each other and they need to avoid the temptation to “stand on principle.” In the context of a family business, “standing on principle” is a synonym for “being stubborn.” It means, “I’m not going to listen to you.” It also tends to shut down discussion because virtue signaling can shut down the give and take that’s essential for compromise.

6. Be careful of what is said in anger.

Angry words can be self-fulfilling, such as for example, disparaging someone’s competence or expressing a preference for a sibling. A person may say something in momentary anger, but the person hearing what was said may remember those words for a lifetime. Garbage can come out of Pandora’s Box that can’t be stuffed back in again.

Done right, the family and all its benefits will endure. Done wrong, the family business blows up. By considering and practicing these six attitudes and techniques, you can quell any family business dissent before it jeopardizes the health of the company as a whole.

Managing Online Risks to Family Offices

By Bailey McCann

Family offices have a higher profile than ever before. The rise of social media, along with the expectation that businesses have an online presence means families have to navigate a growing risk landscape. Security studies routinely show that cybercriminals, identity thieves and burglars follow families, family members and employees online to try and get access to assets or information.

An increasing connection between online stalking and physical violence adds yet another potential layer of danger for individuals. As a result, families are rethinking how they manage what is posted online and crafting policies designed to protect individuals and employees.

Prevention, Policies & Monitoring

“Those of us who work with families have really shifted how we talk and think about online risk,” says Patricia Soldano, a family office consultant based in California. “Michelle Jordan who has done work in this area calls it ‘reputation responsibility’ - and it really involves being proactive about risk prevention, but also putting a policy in place that outlines how information is shared as well as response plans in the event of an incident.”

Thinking of your online presence as a responsibility instead of just another issue to be managed can help family members young and old alike take their interactions a little more seriously. Making it a responsibility to administer devices like cell phones and computers such that they are always running current software and have current security patches also limits potential vulnerability.

Jordan Arnold, who heads K2 Intelligence’s Private Client Services, Strategic Risk and Security practices, works with families on

creating these policies as well as managing devices and incident response. K2 Intelligence was founded by the Kroll family, the originators of modern corporate investigations. Arnold says families have finally started to understand that prevention is much easier than dealing with the potentially permanent harm of an irresponsible post on social media or opening an attachment without checking if its real.

“The issue is when it comes to online incidents, the damage is permanent. It is very hard to remove information once it’s out there. You can delete a post but someone could have taken a screenshot. Or, if you have poor online security, it’s like leaving the door open,” he says.



Avoid real-time posts

Arnold adds that the best way to understand the risk is to think of your digital life as a footprint. “We advise families, for example, to post on a delay. If you post real-time from where you are you are creating effectively two risks. You’ve created a physical risk wherever you’ve posted from and an asset risk at your home or business because adversaries now understand you aren’t there.” Even when individuals post on a delay, they shouldn’t include overly specific locations or identifying details. That could mean anything from hotel rooms to the interior of offices. It’s one thing if an online lurker knows you’re in Paris, it’s another thing if they know at which hotel. Similarly, online adversaries that are looking for business information may be able to take away key bits of intelligence from what’s in an image of an office, conference room or other work areas.

“You might think a picture looks totally innocuous but you have to think about all the information that is in that image,” Arnold says. As part of its risk management practice for families, K2 Intelligence monitors databases of stolen information for details about their clients. A whopping 40-60 percent of those families have had information on one or more of those databases. “You don’t necessarily have to hack someone to get personal information anymore,” he notes. “It’s often about what individuals freely give up without thinking about it.” This is where chang-

ing mindsets around what goes online is a key part of prevention. Basic cybersecurity training, crafting online policies and implementing solid monitoring tools also help.

Focus on the whole organization

Timothy Lappen, founder and chairman of the family office and luxury homes groups at Jeffer Mangels Butler & Mitchell LLP, says it’s important to be realistic about what people are willing to do in the name of security. “You can implement all the best systems in the world, but if they aren’t easy to use they are going to fail,” he says. “In some cases, the response is well, we just won’t be online because the risks are too great. But, that’s not realistic in this day and age.”

Lappen suggests that getting cybersecurity insurance can be a helpful safety net if situations arise. Cybersecurity policies can insure devices, business activities and other online transactions provided that the family completes a risk audit with the insurer. If a compromise occurs the insurance policy can help recover lost or stolen data as well as covering the cost of security response. However, coverage can be denied if insurers find that organizations weren’t staying on top of best practices for information sharing and cybersecurity.



Most enterprises monitor activity internally in an effort to prevent activities that might trigger an insurance claim or security response. This practice is growing in family offices as well. Monitoring what people are doing online within the organization can be fraught - especially for families - but it can also prevent violence and insider threats. Security consulting firm Hillard Heintze works with companies and families to monitor how family members and employees are interacting online. In one case study, an employee set off an internal security trigger by posting about another employee on Facebook. The post suggested the potential for violence. Hillard Heintze worked with the organization as well as law enforcement to identify the people involved and craft a response plan. Parties were able to come together and prevent violence by temporarily reassigning the employee under threat and ending employment with the person who made the threat. Without strong monitoring, the situation may have unfolded differently.

Kids can be but aren't necessarily the weak link

Many parents also strictly limit screen time for their children or refuse to let them have their own devices. That can work at a young age, but it gets harder as kids age and more of daily life and indeed school-work must be completed online. Complex security procedures can also be hard for adults to stick to if they are in a hurry or think they know better. Patricia Saldano notes that it's not always the kids that are the weak link when it comes to being online.



"I work with a lot of young people and I'm seeing more of them that aren't online or on social media that much or they were on it and ended up leaving it. They tend to be more aware of the potential risks compared to older people, who see it as a way of staying in touch," she explains. "Anecdotally, I see more older people on social media and they seem to have varying degrees of understanding about what it all means."

By working with a risk team that includes cybersecurity professionals, lawyers, insurers and crisis communications firms families can create a barrier of protection from online adversaries. Prevention is critical, once something is online or information is compromised it becomes very difficult to remove it. All members of the family and employees should know what the policies are and also have a working understanding of the risks of social media and other online transactions. Creating a device program can also help ensure that up-to-date software is present throughout the organization. Finally, a strong monitoring process can help ensure a rapid response if a compromise does occur.

Factbox: 10 ways to protect your family and staff online

1. Educate your family, especially minor children, on the importance of keeping personal and "family matters" OFF social networks.
2. Never post anything online which can be used to locate your family members or staff. Keep your routines private.
3. The internet has an infinite memory. Never post something which may be a source of future liability – when unsure, DO NOT post it.
4. Monitor the office and home networks to detect misuse or unintentionally dangerous behavior.
5. The family identity should be obfuscated when using digitally enabled conveniences, even when business is conducted via staff or other proxy.
6. Practice good internet hygiene by avoiding sites known to launch malware attacks. Be skeptical of email links and file sharing — follow up by phone or text when unsure.
7. Staff and family members should be educated on the potential risks of participating in location based social media.
8. Digital pictures which are posted online must be "cleaned" of hidden location, time and device information.
9. Security and usability are a compromise; find the right balance for your family.
10. Online risks are here to stay – make your response flexible but sustainable.

Source: [Torchstone Group](#)

Alternatives Now Constitute Nearly Half of the Average Family Office Portfolio, but US Family Offices Found to Miss Out on PE Opportunities

The Global Family Office Report 2018, published by UBS and Campden Wealth Research, surveyed principals and executives in 311 family offices around the world, with an average size of USD 808 million assets under management.

Investment performance in 2017 has more than doubled as family offices benefit from the bull equity market: Having returned seven percent in 2016, and just 0.3 percent in 2015, the average family office portfolio delivered returns of 15.5 percent last year.

This accelerating performance was driven by family offices' continued preference for equities in the context of a strong bull market. 28 percent of the total average family office portfolio is now comprised of equities.

Improved performance can also be attributed to strength within the private equity space, which comprises over a fifth (22 percent) of the average portfolio and has delivered returns of 18 percent in 2017.

Reflecting this year's upward performance levels, almost half (48 percent) of family offices reported

that their assets under management increased over the year.

Sara Ferrari, Head of Global Family Office Group, UBS AG, said: "Family offices have delivered their strongest returns since we began measuring their performance five years ago. This reflects the bull market, as well as family offices' ability to take a long-term approach and embrace illiquidity.

"For the first time since we have been analysing this data, Asia has led the way on performance, benefiting from a relatively high exposure to developing market equities and the high number of private equity deals in the region. Following a path we've seen in other regions, we're also seeing family offices in developing markets becoming increasingly sophisticated and institutionalised. We expect this trend to accelerate in the coming years."

Dr. Rebecca Gooch, Director of Research, Campden Wealth said: "In addition to the robust average family office portfolio performance of 15.5%, we have witnessed a significant growth and **professionalization of the family office space** since the turn of the millennium. One-third of all responding family offices now have secondary branches, half have reported that their AUM has increased year-on-year, and three-quarters reported that the wealth of the families they serve has risen over the last 12 months."



Trend towards riskier, more illiquid investments continues

The year saw a continuation of family offices' drive towards higher risk, more illiquid investments in their pursuit of yield. As part of this, nearly half (46 percent) of the average family office portfolio is now allocated to alternative investments.

Private equity has maintained its momentum, with allocations having increased over the year to 22 percent. While allocations to hedge funds have continued to slow, real estate has seen a slight rebound in popularity. After a small decline in allocations in 2016, family offices have increased their exposure to real estate direct investments to 17 percent of the average family office portfolio.

When asked about their investment intentions for the coming 12 months, half of family offices reported that they intend to invest more in direct investments, namely private equity. Over a third also noted that they plan to increase their allocations to developing market equities, private equity funds and real estate direct investments.

Family offices increasingly manage their wealth with purpose

Over one third (38 percent) of family offices are now engaged in sustainable investing. As part of this trend, impact investing has experienced a particularly significant increase in participation; the amount of family offices making such investments has increased from one quarter in 2016 to one third in 2017. The most common areas of investment are education; housing and community development; agriculture and food.

More broadly, nearly half (45 percent) plan to increase their sustainable investments over the next 12 months while, looking further ahead, 39 percent of family offices projected that when the next generation takes control of their families' wealth, they will increase their allocation to sustainable investing.

Sara Ferrari said: "Families of great wealth feel a deep-seated obligation to make a positive impact on the world, which is reflected in a consistently high level of philanthropic activity. The family office structure allows them to go further and translate their values into financial returns through impact investment. Yet many are still to be persuaded to cross the line from interest to action. The appetite is there, but more work needs to be done to demonstrate the investment case and create opportunities."

Dr. Rebecca Gooch said: "Impact investing will be an important space to watch over the coming years. Our research shows that the next generation, and millennials in particular, are driving impact investing within the family office space. This is key as we are on the precipice of a major generational transition set to take place over the coming 10 to 15 years. This could result in the growth and transformation of the impact investing arena."

Slow progress on preparing for looming wealth transfer

70 percent of family offices expect a generational transfer in the next ten to 15 years. Next-gen family members are taking a more active role within the family office, indicating that the handover is beginning to take place. Amongst the next generation of family members, three in ten (29 percent) now hold management or executive roles, while 23 percent sit on the board.

However, half of all family offices do not have a succession plan in place. Indeed, there has only been a one percentage point increase in succession plans since UBS and Campden Wealth warned of the problem last year.

Sara Ferrari commented: "The next generation are clearly influencing family office direction and invest-

ment strategy, particularly on questions of sustainability and impact. But all too often, the underlying issue is not being addressed: families need to be much more proactive in tackling the issue of succession.”

US family offices found to miss out on private equity opportunities

Despite the trend towards riskier, more illiquid investments and PE now making up around 22% on average of the polled family offices, another study of family offices from Schroder Adveq showed that US family offices would be missing smaller opportunities as well as opportunities outside of their home market.

“Large buyouts clearly command the most attention, but this leads investors to think this is the preferred or even safest place to find attractive opportunities,” said Ethan Vogelhut, Head of Buyout Investments, Americas at Schroder Adveq. “However, in reality, smaller deals make up the vast majority of the opportunity set for investors, but only 25% of capital goes into these types of deals, offering savvy investors access to an often-untapped and less efficient segment of the market.”

According to the study, family offices are also failing to recognize private equity opportunities in emerging markets and in Europe, with only 5% and 6%, respectively, citing these regions as having the most opportunity over the next year. Instead respon-

dents showed a large home-bias towards investing in the US with 75% citing the US as having the most opportunity.

When it comes to expanding the opportunity set, family offices have started to take a closer look at the smaller end of the market in the US. Respondents cited greater buy-and-build opportunities and lower purchase prices as the top two reasons for looking at the middle market.

Being prudent or overcautious?

There are more concerns when it comes to looking at global opportunities. Most respondents said they have looked at deals in emerging markets but 32% were worried about political uncertainties. Fifteen percent were most concerned about the lack of private equity managers with experience or expertise in emerging markets, while 14% worry that there is not enough information available to fully vet potential investments in the region.

“This was surprising to us as we see as strong opportunities in both of these regions,” said Steven Yang, Head of Global VC for Schroder Adveq. “Investments in China and India on the emerging market side are offering competitive returns. Opportunities in the small to mid-segment of the Asian private equity market, in sectors like healthcare for example have demonstrated strong growth potential. In Europe, we are also finding opportunities in small to mid-buyouts and turnarounds.”

As usual, investing with the right (local) partners will help.



Book Review & Interview: Portfolio Diversification by Francois-Serge Lhabitant



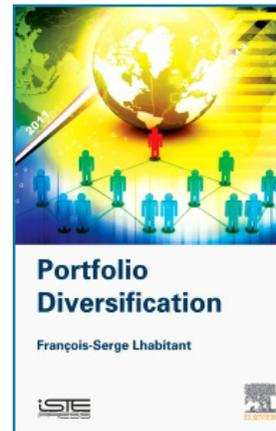
Francois-Serge Lhabitant

A new framework for reviewing and measuring the benefits of effective portfolio diversification

Book Review:
Portfolio Diversification by
Francois-Serge Lhabitant, ISTE
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François-Serge Lhabitant is the C.E.O. and C.I.O of Kedge Capital, the \$5bn hedge fund investment group backed by Ernesto Bertarelli's family office.

Lhabitant has been researching hedge funds since 1994 and is considered a specialist in alternative investments, known globally for his work on hedge funds and emerging markets. He is also a Professor of Finance at the EDHEC Business School, and a visiting Professor of Finance at the Hong Kong University of Science and Technology.



He is the author of several books and research papers on hedge funds, emerging markets and the modeling of interest rate contingent claims. Lhabitant is a Member of the European Advisory Board of the International Association of Financial Engineers (IAFE). He was a Member of the Scientific Committee of the Autorité des Marchés Financiers, the French financial markets regulatory body, and the Alternative Investment Management Association (AIMA) Investor Steering Committee. He is also an acclaimed expert in Ukrainian cuisine.

Widely practiced, but rarely discussed or challenged

Portfolio diversification is widely practiced, but rarely discussed or challenged. Consequently, many investors end up disappointed, with portfolios that hold a little bit of everything but fail to be well diversified.

This book introduces a new framework for reviewing and measuring the benefits of effective portfolio diversification. It outlines the major trends in Modern Portfolio Theory and presents the strengths and weaknesses of a range of well-known approaches to portfolio management, including traditional Markowitz diversification and diversification in risk budgeting environments.

Lhabitant's new book provides an update on the practice of combining several risky investments in a portfolio with the goal of reducing the portfolio's overall risk. Readers will find a comprehensive introduction and analysis of various dimensions of portfolio diversification (assets, maturities, industries, countries, etc.), along with time diversification strategies (long term vs. short term diversification) and diversification using other risk measures than variance.

"Portfolio Diversification" also includes several tools to quantify and implement optimal diversification plus recent empirical material that was created and developed specifically for this book. The later chapters explore more advanced topics such as diversification using factor models and principal portfolios, as well as approaches to non-linear relationships between assets and non-normal distributions. Finally, the book concludes by addressing the important question of when concentration is preferable to diversification.

Featuring a wide selection of references to sources in research and practice, Portfolio Diversification is a crucial addition for anyone looking for a deeper understanding of the complexities of investment and asset management and is particularly recommended for MBA and PhD students in Finance, Portfolio Managers, Wealth Planners, Institutional Investors, CFA holders, and Quants willing to familiarize themselves with finance.

Matthias Knab: Given the often smaller size of a typical family office, what would be your top three recommendations (or warnings) for a family office regarding diversification?

Francois-Serge Lhabitant: The first one would be to avoid considering the number of line items in a portfolio as a proxy for the effectiveness of its diversification. What matters is what *really* drives the performance of these line items.

The second one is to be extremely cautious when a new back-tested investment idea or strategy is primarily praised for its diversification purposes. Simulated returns are always great, and *engineering decorrelation in simulations is easy to do*.

The third one is to always question the cost in terms of returns of diversifying away from something you hold. Focusing on risk is very important, but at the end of the day, it is returns that matter the most.

Matthias Knab: You also mention that while diversification works over time, it does not necessarily work all the time. This brings us back to the question which you also discuss in the book of when concentration is preferable to diversification? In your own line of work as CEO and CIO of Kedge Capital, how do you balance the two?

Francois-Serge Lhabitant: Since inception in 2001, we run a relatively concentrated portfolio, with the top 5 allocations representing around 50% of the portfolio and the top 10 around 80%.

Keep in mind that in hedge funds, talent is scarce and fees are expensive. Having 30 to 50 hedge fund managers in a portfolio is a recipe for increasing operational risk, paying performance fees on netted positions (one manager goes long and the other goes short the same stock), and not knowing very well what you are investing into.

Ibiza Insider Sells Spectacular Ibiza Hilltop Villa: 365 Days of Sunsets and Panoramic Views of Coast and Hills

Already before the opening of the commercial airport in Ibiza on 1 April 1958, the father of the seller bought large stretches of real estate – whole bays, actually – in Ibiza. Both the father and the seller are personally known to Horizons publisher Matthias Knab.

This Hilltop villa combines modern day luxury in a natural wild pine wood forest. The master area set on the top floor overlooks the entire house and the landscape. With four clear white bedrooms and a separate sofa corner the house sleeps 8-10 persons.

Each room features: sea view, touchscreen panels, satellite TV, individual control of the sono music system, a safe, as well as high speed internet. Bathrooms ensuite measure 25-30m², each equipped with a touch panels & sound speakers. Some bathtubs with TV and sea view from the shower.

The range of ultra contemporary material of the highest quality make this incredible home a statement of passion for design.

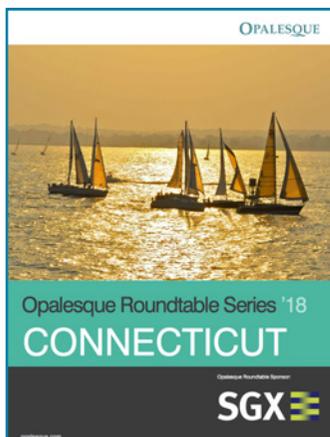
Cameras in the garden, an alarm system and high outdoor walls insure your security. A smart home control system allows you to adjust the alarm system, lights, music, ground floor heating, air conditioning and the electrical window fronts with your smartphone from anywhere.

22,000 m² plot
650 m² terrace
350 m² living space
Water well on premises
EUR 6.5 million

Contact horizons@opalesque.com



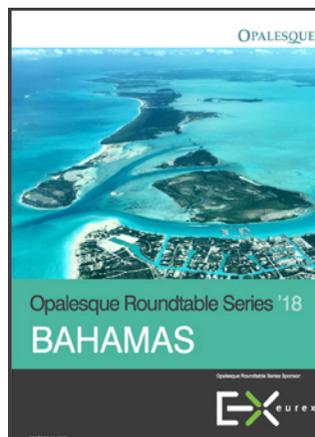
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1

Opalesque 2018 Connecticut Roundtable

What investment managers can learn from top athletes (and Formula One) to keep their edge in a changing world



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Opalesque 2018 Bahamas Roundtable

How The Bahamas modernizes to remain dream destination for companies, families and high net-worth individuals



2

Opalesque 2018 Cryptocurrency & Blockchain Roundtable - New York

The biggest innovation wave we'll see in our careers & the Killer App of Blockchain



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Opalesque 2018 France Roundtable

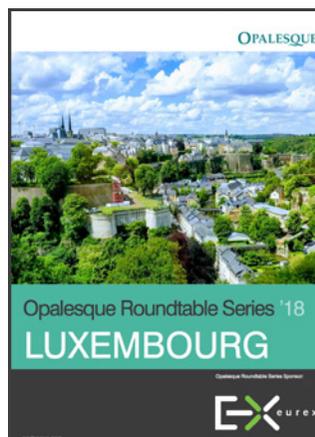
(Big) data, AI to create next generation of systematic investment strategies, but human market 'interference' still a challenge



3

Opalesque 2018 U.K. Roundtable

Man Group's experience with pure deep-learned strategies

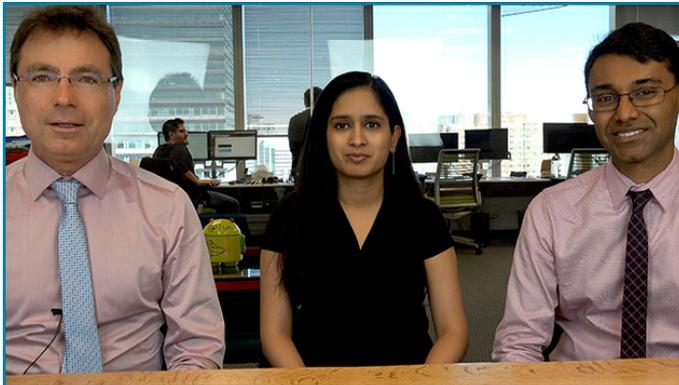


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Opalesque 2018 Luxembourg Roundtable

Alternative Investment Funds grow fastest in Luxembourg, the largest global distribution centre for investment funds

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1

Video: qplum - with the help of AI, investing can now be a science

Mansi Singhal and Gaurav Chakravorty started qplum in 2015 after having met while studying computer science at University of Pennsylvania. Both worked on Wall Street for many years — Mansi as a trader and portfolio manager for big banks and hedge funds and Gaurav as Partner of Tower Research Capital where he built one of the most profitable high-frequency trading (HFT) operations at that time, turning an initial investment of \$10,000 into over \$500 million.



2

Video: Bodhi Tree Asset Management: Built by humans. Driven by A.I.

Veteran multi-asset class allocator Shalin Madan has during the past two decades witnessed a **precipitous decline in alpha** in liquid (and illiquid) markets due to the commoditization of skill-sets and pedigrees, technological innovation, and in recent years, the rise of 'smart' exchange traded products (ETPs). He believes that the asset management industry is at the **beginning stages of massive disruption** – going forward all investors will need to use technology to innovate and survive.



3

Don Steinbrugge: Three things hedge funds should focus on to succeed in the world's most competitive industry

Why the hedge fund industry is “the most competitive industry” and what it takes to succeed at a time when 75% of asset flows go to firms with assets greater than \$5bn.

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