Longevity investing: aligning portfolios with lifespans

As the prospect of 100-year lives looms into view, so does the need to re-configure investment strategies for long-term growth stretching across multiple generations.

One of the first lessons any investor learns is how easily numbers can change. And this does not just apply to asset prices.

In recent years, considerations about how long to hold each one for and the duration of an overall portfolio have radically evolved. The root cause for re-thinking both is human longevity.

Firstly, the traditional strategy of winding down from business life after the age of about 60 no longer makes much sense when average lifespans are now closer to 90 in wealthier markets like Monaco and Switzerland in Europe, plus Japan, South Korea and Hong Kong in Asia[1].

Secondly, the old adage that investors should hold their "age in bonds" has also progressively fallen out of favour over the past decade. This investment strategy would result in an 80-year old allocating 80% of their portfolio to bonds.

Yet, rather than seeking to bolster capital preservation across longer lifespans by adding more fixed income to portfolios, many older investors are holding less.

This shift in mindset is longevity-induced, but often subconscious.

> "The healthcare and lifestyle improvements, which are enabling people to live longer are also making them feel youthful well into old age. We see plenty of older clients who just don't think of themselves as elderly at all. They feel they still have plenty of time to take on more risk, carry on running their businesses or set up new ones."
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> **Esty Dwek**
> Head of Investment Counselling, EMEA, HSBC Private Bank

Georgios Leontaris, Chief Investment Officer, Switzerland and EMEA, HSBC Private Bank, adds that the performance of financial markets has helped to underpin this way of thinking.

> "Risk assets have performed very well since the Global Financial Crisis in the late 2000s. There have been downturns, but they haven't lasted very long and then markets have historically quickly recovered again. This pattern has given older investors the confidence to layer in more risk. They believe they'll have time to ride out any subsequent volatility and let the markets continue working for them."
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> **Georgios Leontaris**
> Chief Investment Officer, Switzerland and EMEA, HSBC Private Bank

Dwek also notes a marked generational divide, with younger investors being more proactive about planning for longevity. "Gen Z and Millennial investors definitely want to know more, to get into the details of longer-term wealth planning," she states.

Re-imagining longevity of wealth

For many people, one of the biggest benefits of living longer is being around to watch the second, third, or even the fourth generation grow up. The reality of personally knowing multi-generations of a family line and wanting to see them flourish is prompting many high-net-worth (HNW) and ultra-high-net-worth (UHNW) investors to embrace longer-term, multi-generational portfolio planning.

> "One of the big changes we're seeing is just how long investors' time horizons are stretching to. A lot of entrepreneurs, in particular, want their wealth to span centuries. They're thinking about longevity of wealth rather than the longevity of their own individual life."
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> **Esty Dwek**
> Head of Investment Counselling, EMEA, HSBC Private Bank

This is transforming how HNW and UHNW investors think about asset allocation and risk appetite. Portfolios are being optimised to generate enough income for the current generation to live off and growth for those that will succeed them.

Leontaris says this is one reason why closed-end vehicles have grown in popularity. "Investors are willing to forsake short-term liquidity by allocating capital to long-term investments in infrastructure projects because they're designed to generate higher returns," he says. "And we find these investments are just as popular with older investors who still believe they have 20 or 30 years ahead of them to benefit."

The foundational principles of effective, long-term portfolio planning

Here are a few key principles to bear in mind when thinking about your own longevity and planning for those who will follow:

Consider your time horizon

The first question to ask is what time horizon you are working towards and why. It is important to understand your objectives, your risk appetite and which heirs/beneficiaries you need to take into consideration.

In practice, this means extended planning horizons and portfolios constructed to support growth and income for multiple generations across multiple decades – effectively, lifespan investments.

Longer investment horizons have the added benefit of providing opportunities from compounding (reinvesting returns to generate additional gains) and participating in emerging sectors for the future.

Build resilience and adaptability

Investment strategies that span multiple decades need to be resilient and adaptable: the former so they can successfully weather market volatility and the latter to account for changing individual and family dynamics.

Regular portfolio reviews to revisit risk tolerance levels and rebalance allocations will help to ensure that the investment mix remains aligned with evolving timeframes and goals. Asset allocation becomes multi-phase.

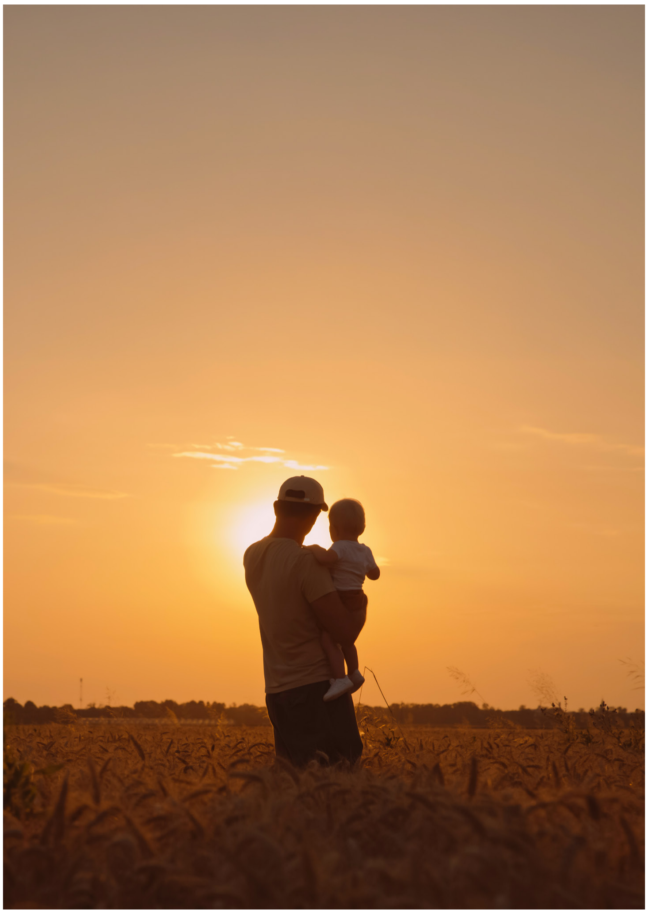
It is also important to remember that effective portfolio management is one element of wider legacy planning to facilitate a seamless transition to heirs. This requires flexibility to amend plans and ongoing communication to align goals and avoid future conflict.

Prioritise diversification

Increasingly, investors are seeking to maximise returns and minimise risk through diversification. This takes many forms: geographical, sectoral and by asset class.

Broader diversification and dynamic asset allocation can both help to manage risk across the larger number of market cycles and deeper economic shifts that will naturally occur over longer lifespans.

"If you build a diversified portfolio for the long-term from the outset, then you can actually just let it run and tweak at the margins," Dwek suggests. "Diversification will allow you time to spend on other things rather than having to constantly intervene in your portfolio. It helps to stabilise returns."



Look beyond financial returns

Investment strategies for longer lives often take broader measures of success into account. This more holistic approach to wealth planning includes well-being, health spans and personal fulfilment.

One aspect involves investments in longevity. "Sectors like biotech and wellness provide opportunities for both personal and financial returns," Leontaris comments. "These companies are working to improve everyone's quality of life."

Another aspect is thinking about longevity more broadly. As Dwek concludes, "Many younger investors link their own longevity to the planet's. They're embracing investment strategies with sustainable and social aspects. Women, in general, are very keen on ethical investing too."

Portfolio management for a 100-year life extends beyond ensuring that capital lasts for longer. It means adapting to the changing needs of those who will access it and their evolving desires about how and what it should be invested in.

Planning must be flexible enough to accommodate multiple life transitions for both the portfolio owner and their heirs. It requires ongoing alignment with family values and aspirations. Portfolios that are resilient, diversified and future-focused will help to ensure that it will not just be one life well-lived but many.

Sources

1. https://unric.org/en/longest-life-expectancy-europe/

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