The emerging wealth paradigm

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The emerging WEALTH PARADIGM

THE FUTURE OF WEALTH MANAGEMENT IS PROFITABILITY COMBINED WITH SUSTAINABLE SOCIAL IMPACT, ACCORDING TO REZA DARI, CHIEF EXECUTIVE OF GLOBAL INVESTMENT BANK

PROJECT HIGH DOMINION AND ITS FIRST PROJECT, THE INTERNATIONAL FILM FUND, ARE AIMED AT PROVIDING SIZABLE RETURNS FOR INVESTORS WHILE CONTRIBUTING TO POVERTY ALLEVIATION THROUGH IMPACTFUL SOCIAL INITIATIVES.

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IN A CHALLENGING LANDSCAPE, NEW OPPORTUNITIES EMERGE

2015 was yet another eventful year for the financial industry as the equity markets experienced new levels of volatility. Data from the Dow Jones indices show global equities devaluing by $3 trillion within the first two weeks of this year amid fears of economic slowdown in China together with weakening demand for oil and strengthening US dollar, putting downward pressure on equities, commodities, bonds and currencies. While markets have braced for a sluggish 2016, wealth managers may find a silver lining to the declining global economy by transforming crisis symptoms to fuel for growth and innovation.

Although cyclical contractions are inherent to the fundamentals of financial markets, the increased frequency of market volatilities and liquidity crisis in the recent years may be pointing to a different kind of crisis—an expanding consumer confidence crisis perpetuated from the 2008 financial crisis. The ensuing global recession destroyed over 30 per cent of the global wealth wiping out trillions of dollars of consumer and household wealth around the world as a result of which we are now faced with an evolving disruption in the consumption and investment behavior of key actors and investors becoming increasingly skeptical of the global markets and the financial sector.

While traditional private banking and wealth management have been fundamentally built on the self-centric interpretation of wealth, the perception of wealth is going through a profound transformation driven by a new generation of consumers and investors growing increasingly mindful of sustainability and social impact when it comes to creation, preservation and application of wealth. This holds especially true for the millennial generation born between 1982 and early 2000s, which according to the World Economic Forum stands to inherit over $40 trillion in the coming years.

A NEW GENERATION FOCUSED ON SOCIAL IMPACT AND SUSTAINABILITY

A 2013 US Trust report suggests that although millennials and younger HNWIs are skeptical of stock markets and traditional equity investing, they have a higher risk appetite for investments with positive social and environmental impact. Referencing a separate report by the Brookings Institution, 84 per cent of millennials consider corporate social responsibility a key factor when making purchasing decisions. It may also be compelling to note that according to the same report, four of the largest US banks are among the 10 least-liked brands in America. This highlights a growing sense of distrust towards the traditional culture of Wall Street which draws urgency to the need for action to revise conventional business and operating models in order to stay compatible with the consumption and investment needs of the next generation of clients. Though this might be perceived as a challenge for traditional institutions, it presents progressive wealth managers with a unique opportunity to replace the long-standing ‘chase-the-money’ approach to a new ‘direct-the-money’ approach through innovative investment solutions capable of infusing profitability with sustainability and purpose. The future of wealth management is impact-oriented investment solutions.

YOU DON’T HAVE TO SACRIFICE PROFITABILITY TO MAKE A SUSTAINABLE IMPACT

We want to demonstrate the fallacy of a common misconception, which assumes an inherent conflict between money and morality—between profitability and social impact. According to a recent study by Morgan Stanley Institute for Sustainable Investing, sustainable investments have mostly “met and often exceeded” the performance of comparable traditional investments. There are various other reports that suggest impact investing can compete with and has in fact outperformed the S&P 500 for many years. So the simple fact is, you don’t have to give your wealth away nor do you have to compromise on profitability to make a positive social impact. In contrast, with Project High Dominion we propose that sustainable impact investing will not only enhance the quality of wealth but it can also enhance profitability.

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WHAT IS PROJECT HIGH DOMINION?
Given all the philanthropic grants, humanitarian and governmental aid today there is still an annual deficit of approximately $2.5 trillion to adequately address challenges associated with global poverty, food security, and climate change. Financial institutions continue to make significant financial contributions to the fight against poverty as part of their Corporate Social Responsibility, but CSR as a purely competitive business strategy has limited social impact unless the underlying corporate values are fundamentally aligned with core human values and a genuine sense of moral responsibility. Giving away your change is good but today poverty is begging for a different kind of change. Money alone cannot and will not solve the problem of global poverty for exactly the same reasons money and capital performance have failed to produce a sustainable global economy. So long as our experience of wealth remains insular in nature, our world will continue to experience extreme poverty and the global economy will continue to experience crisis and volatility.

Project High Dominion was conceived as an alternative to the exclusionary interpretation of wealth aimed at making sustained contribution to the betterment of life by advocating for a morally-oriented culture of commerce and finance. It is a collaborative platform for investment managers, financial institutions, public figures, and private enterprise to promote and participate in innovative “impact-oriented” financing solutions and profitable philanthropic investment products genuinely capable of infusing profitability with sustainable impact. It will also include a fixed-cost asset management product line designed to enhance capital growth while appropriating all associated management performance fee revenues to sponsor and fund sustainable child and human development programs in the most impoverished parts of the world.
I see an even bigger opportunity in using interactive audience participation not only in producing the next made-to-order entertainment experience but more importantly, to engage our social stakeholders in focusing and guiding the IFF social impact.

THE INTERNATIONAL FILM FUND – A HUMANITARIAN APPROACH TO FILM PRODUCTION

With the IFF, we are dedicated to capital performance for our investors, while allocating 50 per cent of the fund manager’s performance fee revenues to humanitarian initiatives, so our investors wouldn’t have to sacrifice profitability for social impact. By simply participating in the IFF and being part of a unique commercial venture, investors would directly contribute to the alleviation of global poverty. Once launched, the IFF will be the first professionally managed large-scale film fund domiciled in the DIFC focused on funding and producing premium Hollywood films. But the IFF will not be limited to Hollywood as we intend to replicate the same model to eventually include the regional and international film industry.

We have spent the last two years collaborating with seasoned industry experts and producers to acquire a comprehensive understanding of the Hollywood film industry and production related risks with the view of extracting the highest possible value for our investors with minimal risk exposure. Furthermore, we are currently in the process of structuring a downside principal protection mechanism prior to the official launch this year designed to further safeguard our investors’ capital. Aside from the high barriers of entry, production related risks are perhaps the biggest challenge facing investors looking to apprehend value in premium film financing. We see production risk as the biggest inherent risk in film making, which could ultimately translate to financial risk. It is not uncommon to see film projects go above and beyond projected budgets and completion deadlines which can expose investors to possible financial risk, especially those passive investors with very little control over the project management process. Even if a film performs reasonably well at the box office, it may still be considered a financial failure due to high production costs. While completion bonds play a critical role in minimising project completion risks, due consideration must be given to professional management oversight to minimise production costs, maximise production efficiency, and at the same time enhance output quality and financial performance. For that very reason, the IFF investment strategy utilises the collective expertise of in-house production professionals with over 50 years of combined industry experience to oversee and manage the acquisition and production of our projects.

To assume that a passive investor could stumble upon the next Harry Potter franchise is nothing short of wishful thinking unless the required core competencies have been acquired to package and create the next successful brand. Financial success of a film is not only dependent on the quality of cast, directors and script, but also on marketability, release time, and public opinion. A pre-requisite for financial success is active professional oversight throughout the entire project, starting with origination and development to production and distribution. After reviewing nearly 200 scripts and packaged films over the last year, our production team has selected 10 of the strongest projects with the highest expected box office sales and ancillary revenues. In addition to our own slate, we are also in discussions with a number of award-winning independent producers and major studios to explore co-production, P&A, and completion financing opportunities. In short, what we look for in a project is quality combined with commercial viability and most importantly ancillary revenue potential.

The question here is—to what extent can you control the creative direction of the films you produce to ensure maximal quality and commercial success? We are very adamant when it comes to managing the creative direction of our projects. While we are keen to collaborate and work with major studios, our production team will be actively involved in the creative direction of our films and remain mindful of new distribution platforms...cont. overleaf
to better ensure optimal output. We intend to establish a successful brand by managing the creative direction and quality of our feature films. We're not only looking at revenues generated from the international box office or ancillary revenues alone, our ultimate objective is to develop real commercial value by creating a purposeful premium brand.

AN INDUSTRY ALONE

According to the Motion Picture Association of America, international box office sales exceeded $36 billion in 2014, $4.6 billion of which was contributed by the Chinese box office alone. Worldwide cinema screens increased by six per cent in 2014 largely due to the double digit growth in the Asia Pacific Region. Steady upward trends in the number of international theatrical screens and box office revenues appear to have very little correlation with the general economy. This non-correlation is further magnified in times of economic downturn, as films tend to outperform other conventional investments. 2015 for example, was a highly volatile year for the financial markets, but in contrast happened to be one of the best performing years for the motion picture industry with Star Wars: The Force Awakens breaking through the $1 billion barrier faster than any other film in history. According to Rentrak Media, 2015 US box office sales are estimated to have crossed $11 billion setting a new record for the industry, surpassing the previous 2013 record of $10.92 billion. With this in mind, inclusion of film assets may be considered by wealth managers as an ideal alternative for a diversified portfolio allocation strategy.

INTERACTIVE AUDIENCE PARTICIPATION FOR POSITIVE SOCIAL IMPACT

The internet together with new digital technologies have already started to reshape the traditional film industry. The IFF business model highlights the use of new technologies and distribution methods to further enhance financial performance by lowering production and distribution costs. With recent developments in digital file compression and download technologies, producers can now bypass conventional distribution channels and deliver movies directly to end-viewers globally. But beyond new production and delivery methods, I see ‘interactive audience participation’ as the future of entertainment. Moreover, I see an even bigger opportunity in using interactive audience participation not only in producing the next made-to-order entertainment experience but more importantly, to engage our social stakeholders in focusing and guiding the IFF social impact. I envisage the IFF as the next generation motion picture brand dedicated to sustained social impact in partnership with its shareholders, consumers and social stakeholders.

The insular culture of commerce and finance is becoming increasingly irrelevant to the cultural values and financial needs of the next generation of clients. The new generation of consumers and investors are looking for inspiration to help restore their confidence in corporate values and the financial sector. And let us not forget that as actors of the global economy, private enterprise, and wealth managers in particular, have a moral obligation towards greater socioeconomic integrity. We are convinced that the new paradigm of wealth is profitability infused with purpose.

Paraphrasing the words of Victor Hugo, I believe: “there is one thing stronger than all the wealth in the world, and that is an idea whose time has come.” Well, here is the idea we are banking on: the purpose of wealth defines the value of wealth and the more we recognise this reality, the more relevant we become to humanity.

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