

WEALTH AND RESILIENCE



Summary

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- On a generational timeframe, most nation-states eventually siphon much of the wealth that families accumulate, either by direct seizures or indirect confiscation through currency debasement and inflation. Not limited to failed or failing states, wealth confiscation is often driven by politics and social unrest – where wealth is redistributed through the government towards achieving popular ends.
- A resilient portfolio depends not just on the assets themselves, but also the institutions where the assets are held. Which nation-states are truly 'resilient' in their systems and institutions? Answering "How to own?", "Where to own?", and "What to own?" serves as the fundamental framework for designing a resilient portfolio for generational wealth.
- Across history there are many examples of nation-states that resort to wealth confiscation and currency devaluation, with Venice serving as an outlier. Despite decades of upheaval, Venice preserved its reputation as an entrepôt and a safe place to store and transfer wealth by defending property rights and the integrity of the ducat. We can look to Switzerland and Singapore as two modern examples of how property rights and currency strength are protected today.
- At Bespoke, our approach to designing a resilient portfolio is finding a balance between assets that endure and assets that adapt. Our Resilient Portfolio aims to be both durable and highly liquid by design – with a foundation on top of durable cash and hard assets, it aims to leverage equity in businesses that are resilient to competition and disruptive change.

WEALTH AND RESILIENCE – PART I

**"Beyond the steady rock the steady sea,
In movement more immovable than station . . ."**

– Yvor Winters

What lasts? After you slice it, an apple turns brown in a few minutes. A marriage can deteriorate in a few years. The pyramids at Giza, long stripped of their brilliant limestone casings, have sat in jagged heaps for almost five millennia. The biologic, the institutional, the geologic – each operates at vastly different timescales. In the one second it took you to read that sentence, fifty million cells in your body were destroyed, and fifty million fresh cells sprung up to replace them. Resilience is subjective.

There is a trade-off between resilience and usefulness. If our clients owned the moon, that would certainly be resilient – astronomers expect the moon to remain locked within the Earth's gravitational orbit until the Sun expands and incinerates them both, approximately five billion years from now – but it wouldn't be particularly useful.

Gold bars are another precious rock, more portable than the moon, but just as inert. It is only the human institutions that exist around gold, the ability to transact and convert that gold, when desired, into more ephemeral, more consumable, forms of wealth, that makes gold 'resilient' in a way that's useful. In the end, resilience is about human culture, incentives, and behavior. Without humans, there is no liquidity, and you are left holding a rock.¹ That's why, even as physical gold plays a crucial role in the resilient portfolio, for this special hard asset we make use of the most liquid and secure infrastructure that humans have built around it – the Zurich gold market. All layers of the physical gold "stack," in other words, must be resilient.

For our clients' aims – which are to protect and grow their innovation-generated wealth over the long term – a 'resilient' portfolio of assets must be embedded within a carefully-constructed matryoshka doll of resilient institutions. To this end, Bespoke can act as your thought partner and guide.

The process at Bespoke starts by strategizing around "How" you own your assets – but this is only the structural wrapper, the outer layer of the matryoshka doll. Beyond that outer layer, you encounter the question of "Where" to own your assets. After all, they

must be physically held somewhere, at some financial custodian within some nation-state, and subject to its laws and customs.

One layer deeper: regardless of where they are physically custodied, the assets themselves are governed by some nation-state, and are denominated in that nation-state's currency (e.g., US equities, even if held within a custody account in Switzerland, are ultimately American-oriented businesses, subject to American laws and denominated in US dollars).²

At each of these intermediate layers, determining "Where to own" your assets is the critical question. Which nation states are truly 'resilient' in their systems and institutions? You must decide. There is no dodging this question, because you and your assets exist somewhere in the world. To passively default to the nation-state in which you happen to live, is indeed to make a choice, whether you realize it or not. We help you make that choice with eyes open.

In the end, there is one layer remaining. At the core of the matryoshka doll, you face a final question: "What to own?." Nested within those resilient geographies and institutions, which assets themselves are truly resilient? How do you construct a portfolio that balances between the "steady rock" (owning hard assets) and the "steady sea" (owning businesses that can adapt, and grow, and thrive with change)?

We explore these questions around resilience, and Bespoke's approach to solving for them, below. Part I of this paper will discuss resilience in terms of "Where to own." Part II will address "What to own."

ONE FOR YOU, NINETEEN FOR ME

First the good news. History teaches us that human capital is amazingly resilient across generations. To take one example from China, a recent study shows that, fifty years after the Cultural Revolution systematically destroyed their wealth and shattered their families, the leading pre-revolutionary households have risen again to the top of Chinese society.³ Nor is this finding unique; it has been replicated in many places, across many time periods.⁴ How you act, and the values you transmit, can echo for generations.

Ironically, human capital – i.e., the knowledge, skills, and values that are shared within a family – has often proved more enduring than the tangible kind of wealth. It is more durable, precisely because it is squishy and elusive; it is hard to nail down. While your tangible wealth can act as rocket fuel for your ideas and values – it amplifies the impact you want to have in the world – tangible wealth is also subject to the vicissitudes of states

and the policies they create. The problem is, on a generational timeframe, most states eventually take away the tangible wealth that families accumulate. Sometimes they do this openly; more often, they do it in a backdoor or hidden way.

At Bespoke, our job is to protect our clients from these vicissitudes and the risks they present. This is the core task in identifying "Where" to own your assets. So let's understand, first, exactly what we're up against.

The direct confiscations of tangible wealth are fairly straightforward, and you can find them in your history books. These include the revolutions, the social upheavals, the pogroms, and the punitively high "wealth taxes" aimed at particular segments of society.

Forget about fascist regimes and the French Revolution. Direct wealth confiscation is far more commonplace and mundane than you think, and is not confined to failed or failing states. Sometimes it is enough to be politically weak or part of a disliked group, for this to happen to you.

To take one of many examples, when its economy slumped in the 1940s, Turkey implemented the Varlik Vergisi, a sudden and ruinous wealth tax targeting its large Greek, Armenian, and Jewish minorities.⁵ Those who couldn't pay – and few households had the ready liquidity available to do so – were thrown in jail. Making matters worse, the Turkish government called off the whole thing midway through, but didn't return any of the seized wealth, creating a stark disparity between those lucky ones who managed to evade the early confiscations and those who acted like "good citizens" and paid them. It is generally considered the worst fiscal debacle in modern Turkish history. Hardly anyone has heard of it.

Even highly developed nations at the peak of their power have engaged in direct wealth confiscation, usually driven by politics and cloaked in the language of "fairness." While in England, perhaps you have enjoyed visiting one of the grand country estates owned and managed by the UK National Trust? You can only do so today because under the 1894 Finance Act – passed by the Liberal Party, not "red" Labor – onerous estate taxes were introduced specifically to target the wealth of the land-owning Conservatives. These estate taxes made it economically unfeasible for the landed nobility to maintain those grand houses in private hands, because the families that owned them had insufficient liquidity to meet the new tax liabilities. Hence, most large country estates in the UK were eventually abandoned, donated, or sold at deeply distressed prices.

Even at a moment when there was no pressing fiscal emergency, when the British Empire still straddled the world and London was the global financial juggernaut, the nouveaux

riche of British society – the industrial and commercial magnates who led the Liberal Party, and whose wealth was in more liquid form⁶ – effectively engineered the confiscation of their political rivals' wealth. No pitchforks or AK-47s required.

SOME PEOPLE ROB YOU WITH A FOUNTAIN PEN

Direct seizures of wealth tend to be identifiable and discrete. They are "events." Almost always, they are preceded by a political discussion – or at least the outward performance of one – in which the justice of the wealth seizure is publicly reaffirmed, and the targets villainized.

By contrast, the indirect seizure of wealth is diffuse and ubiquitous. We don't talk about it as such. There is no legislative committee to debate its merits. It just happens, because it represents the path of economic least resistance. To paraphrase Milton Friedman, it is "everywhere and always a monetary phenomenon." Indirect wealth confiscation takes the form of currency debasement and inflation.

The old trope holds that "the rich have all the power." That's not quite right, because the relationship is backward. It would be more accurate to say, "those who hold power tend to appropriate riches."

In the representative democracies, where politicians must seek re-election, the people ultimately hold the power. As such, the wealth of society is redirected, through the medium of government, toward achieving popular ends. However, because power is held by the majority (AKA the median voter), while wealth and income tends to be concentrated in a relatively small minority (the distributional power law of entrepreneurial outcomes), spending toward those popular ends usually outstrips a society's means to pay for them.

Simply put, in a popular democracy, there is a constant incentive to run deficits.⁷ That results in the pursuit of inflationary fiscal and monetary policies that erode families' wealth over time, effectively seizing it, bit by bit, to pay the deficits. The wealth seizure is achieved, not by direct pressure, but by changing the "score" of the game (i.e. currency values and prices).

These indirect seizures of wealth are sometimes understandable because they can represent the lesser of two evils. Currency devaluation, for example, can be the result of a war or other cataclysm in which the state, in redirecting society's assets toward meeting some unavoidable, shared challenge, accumulates debt that it simply cannot hope to repay once the challenge has passed. The currency devaluation, in that case, merely

recognizes what's already happened – the family wealth that was represented in those currency notes or government bonds has already been consumed, and it's no use trying to pretend otherwise. In the best case scenario (which is rare), the state emerges from the other side of the crisis with its people better positioned to prosper and create future wealth to replace the old.⁸

In more peaceful times, inflation and currency devaluation can be born from popular unwillingness to endure the ravages of deflation that are required to "right the ship" when a major economic downturn happens. When US Treasury Secretary Andrew Mellon in 1930 famously called for the U.S. to "liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate" in response to the 1929 crash and impending depression, he was expressing an outmoded idea of economic austerity, and one that grates on our sensibilities today.

By the 1930s, society would no longer tolerate the "liquidation" of ordinary people on the altar of currency stability.⁹ Indeed, since the early 20th century, the enforcement of such austerity (known in economics as "internal devaluation," known to ordinary people as "brutal belt tightening") has only been feasible in the most authoritarian regimes.¹⁰

Ultimately, the structural incentives in today's major economies will continue to favor slow currency depreciation in normal times, and faster currency depreciation when there's a crisis. For the continued employment and material well-being of the popular majority, that is undoubtedly a good development – 19th century-style austerity policies have been rightly thrown out.

However, Bespoke's clients aren't the majority - they are part of a tiny, innovative minority that has created significant wealth, and they now aim to protect and grow it. Against a general backdrop of state wealth seizure in its various forms, "Where" can you own assets in a way that's resilient to these threats?

"I WILL HAVE MY BOND"

To answer this question, we must examine the positive outliers. What if we told you there was a nation that experienced multiple deadly pandemics, three decades of grinding, attritional warfare, and a major cataclysm in which all its enemies joined together to seize its largest assets and crush it – and yet did not confiscate its citizens' wealth or devalue its currency, ever?

The nation we're talking about, of course, is Venice.¹¹ In the year 1285 the city-state introduced the ducat, a coin which contained 3.545 grams of gold. Amazingly, the gold

value of the ducat remained intact at exactly 3.545 grams until the Venetian Republic was dissolved in 1797, more than 500 years later. Such currency resilience is extremely rare. While Venice regularly employed the use of "forced loans" (*prestiti*), essentially requiring that families hold a significant portion of their wealth in the form of government bonds, interest on these government annuities was regularly paid (at a 5% coupon for most of Venice's history), the principal value was safe, and the bonds could be traded in the secondary market for families who needed liquidity. When it came to respecting and protecting wealthy families, Venice was a freak.

What's more, Venice's attitude toward wealth endured across many changes in the city-state's asset structure and relative geopolitical power: over the period, Venice shape-shifted from a rising commercial power, to a Mediterranean empire, to a middle-sized manufacturing and land-focused power, to a faded aristocratic playground. Through it all, the ducat endured, and Venice remained a safe haven for the early-modern equivalent of entrepreneurial wealth. How do you account for that? The answer lies in national incentives.

Even as its fortunes rose and fell, and its economy shifted from sea-focused to land-focused, Venice always retained its role as *entrepôt*. The origins of that word mean "placed in between." Venice was a meeting place, a hub of people and capital coming together from other nations. In a period when most people never left their village, its foreign-born population ranged from 20%-30% of the total.¹² Given the unique opportunities available in Venice – it was one of the few places in the world where wealth was based on entrepreneurial risk-taking, not rentier land-owning – it attracted enterprising individuals from all over Europe.

Once they built their wealth, these individuals wanted to store it in a form that was both durable and liquid, to retain its value and to make sure they could transfer it across the different regions of Europe, depending on where their family was based and where they did business. Venice's answer was the ducat.

The resilience of the ducat made it the preferred store of value for liquid wealth. Not only did the wealthy residents of Venice keep their ducats in Venetian banks, but they held them in storehouses, strongboxes, and towers across Europe, the Middle East, and North Africa.¹³ Ducats, after all, were both resilient and useful. They could be transported easily in case of trouble. Because of Venice's reputation and the positive network effects that sprung up around the currency – owners of wealth knew they could always exchange ducats with other owners of wealth, and that a ducat would always contain a reliable quantum of gold – it created a self-reinforcing positive spiral.

But currency is just a symbol, and only as strong as the state and the institutions that it

represents. What stood behind the ducat was incentives. The leadership of Venice knew that the city-state's prosperity – and even its very existence – depended on maintaining its role as trusted entrepôt. Politics could be volatile, Venice's fortunes could veer between boom and crisis, but that overriding structural incentive remained firmly in place: to undermine the city-state's reputation, was to undermine the foundations of Venice itself. This incentive was so strong that Venice maintained the value of the ducat right to the very end, when Napoleon's troops, after shelling the city from across the lagoon¹⁴, invaded and effectively shut down the Venetian state.

The resilience of the ducat, and Venice's institutional protection of family wealth, was not due to Venice's geopolitical strength¹⁵ or the changing fortunes of war. Rather, these policies were embedded in Venice's national imperatives and human self-interest. In the long term, in identifying "where" to own assets, those are forces Bespoke clients can rely on.

ISLANDS IN THE STREAM

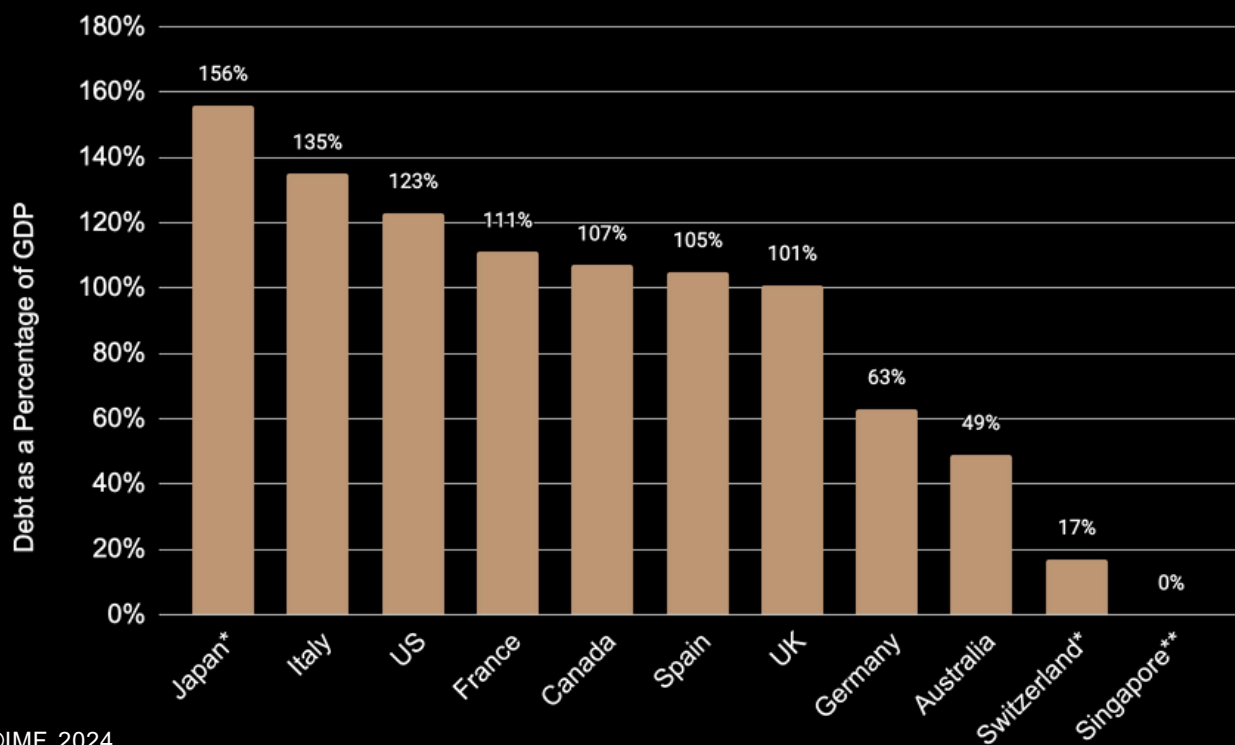
In terms of entrepôt status and national incentives, the Venices of today are Switzerland and Singapore. These two nation-states – and the currencies they stand behind – form the geographical core of Bespoke's resilient portfolio strategies for clients.

Switzerland and Singapore are on opposite sides of the earth, but are remarkably similar to each other, and to Venice before them. Both are wealthy entrepôt nations with a large foreign population (around 40% of the total in both cases). Both are located at geographical hinge-points between key regions and larger powers (Switzerland is a bridge between Germany and France, and between the North and South of Europe; Singapore sits on the most critical trade chokepoint in the world, the Malacca Strait connecting East Asia to the markets of the West). Both are protected by natural geographic barriers – Singapore, like Venice, is an island, while Switzerland is ensconced in a mountain fortress – which help them maintain their independence from great powers and entangling alliance structures (witness Switzerland's refusal to join the EU, which surrounds it on all sides).

Most important, both Switzerland and Singapore today have the same incentive that Venice had for centuries: to safeguard families' wealth, and to maintain a strong currency. Their success – indeed, their very survival as independent geopolitical actors, in a multipolar world where they are practically mice among elephants – depends on maintaining their entrepôt status as a place where people and capital meet on neutral (i.e., protected) ground.

This imperative is evident in the numbers: even as debt levels have risen globally, both countries are extreme outliers (on the low side) in terms of government indebtedness. Meanwhile, both the Swiss franc and the Singapore dollar have a long, multi-decade track record of steady appreciation against the US dollar and other major currencies.

GENERAL GOVERNMENT DEBT (PERCENT OF GDP)



*Shows net government debt / GDP given large gap between net and gross debt positions.

**Singapore does not reveal the exact size of its net government asset position, viewing this as a state secret.

APPRECIATION OF THE SWISS FRANC AGAINST THE US DOLLAR



Over the past six decades, the Swiss franc has appreciated significantly against the US dollar (i.e. one Swiss franc buys more US dollars than it did in the 1970s).

APPRECIATION OF THE SINGAPORE DOLLAR AGAINST THE US DOLLAR



Over the past five decades, the Singapore dollar has appreciated significantly against the US dollar (i.e. one Singapore dollar buys more US dollars than it did in the 1980s).

When Bespoke designs client portfolios to optimize for resilience, the process begins with establishing custody in Switzerland. Within that solid custody wrapper, we lay a foundation that is rooted in Swiss francs and Singapore dollars. Clients can both generate income in these hard currencies, and simultaneously benefit from their long-term appreciation against the client's home currency (e.g., the US dollar).

Before adding hard assets (like gold or bitcoin) or equity participations in resilient businesses (including those that are themselves based in Switzerland or Singapore), the first step to resilience is to establish the proper foundation in "Where to own." Bespoke begins by helping to secure your assets in the modern-day equivalent of Venice – a fortress of positive institutional incentives that you can rely on to support your family's wealth over the long term.

HISTORY IS NOT OVER

Borders matter. History is not over. These are the lessons that the world is waking up to, after a brief interregnum in which it clung to the illusion that a post-Soviet world would somehow be straightforward, that extraordinary wealth could be generated and preserved within a frictionless, American-led, liberal world order. Things were never going to be that simple.

In a world where volatility is rising, and where borders seem more meaningful than ever, you must choose. As wealthy families have learned for centuries, nation-states and the policies they create will, whether directly or indirectly, impact you – whether you come looking for it or not. Resilience begins by acknowledging that fact, and thoughtfully planning for it.

Bespoke's role is to be your protector and thought partner. Making sure that your wealth is resilient to volatility and change is where that role begins. "Where to own" is key. We have the knowledge and expertise to help you build a global footprint for your wealth that can endure.

Part II of this paper discusses "What to own." We explore resilience as it relates to hard assets (like gold and bitcoin), as well as owning resilient businesses that can adapt and thrive in a constantly-changing world.

WEALTH AND RESILIENCE – PART II

Resilience has layers; it takes many forms. In Part I, we un-stacked and examined the matryoshka doll of human institutions that Bespoke designs around "Where to own" your assets.

Once client assets are ensconced in their Swiss fortress, however – once a resilient foundation has been laid down – what then? Part II discusses the final question at the core of the matryoshka doll: "What to own," if you seek to optimize for resilience? At Bespoke, we call this the Resilient Portfolio.

Resilience requires balance. It must embrace hard assets, but a portfolio that is too "hard" can be like a weathered old rock – brittle, inflexible, and prone to crack.¹ Business organizations, meanwhile, can evolve, they can adapt with time and change, but they need a foundation of hard assets to live upon, otherwise they can be swept away by the storm.

There is no linear solution. The Resilient Portfolio is a negotiation between hard and soft, flexibility and strength. The approach we build for clients at Bespoke is a balance between assets that endure, on the one hand, and assets that adapt, on the other.

THE STEADY ROCK – DURABLE CASH WITH INCOME

The foundation of the Resilient Portfolio starts with cash. This cash is denominated in Swiss francs and Singapore dollars, the most durable currencies in the world (see Part I).

The appeal of cash is two-fold. First, it produces interest income for the portfolio, and in currencies that are strengthening long term against the US dollar. The interest yield on Swiss francs and Singapore dollars is supplemented, in the typical year, by appreciation of both principal and interest in US dollar terms. By owning income-generating assets in hard currencies, in other words, you are sailing with the (currency) wind always at your back.

This is a deliberate choice, and one that's designed to give the portfolio "positive skew" across a range of potentially extreme currency outcomes (which is a fancy way of saying: if things go south, the Resilient Portfolio could stand to benefit). In exchange for accepting a slightly lower yield on your Swiss francs and Singapore dollars, you gain exposure to the – theoretically unlimited – gains from currency appreciation. In an environment when government policy is volatile and the US is carrying high and rising debt levels, that is an attractive trade-off.

The second benefit of cash, for those with generational wealth and a long time horizon, is that it represents freedom and optionality. Having cash on hand allows you to buy opportunistically when others are fearful – and in determining the rate at which you compound your wealth over time, seizing just a small handful of critical buying opportunities can mean everything.²

Most investors neglect the option value of cash. That is largely because of principal-agent conflicts in the investment business. Remember, the incentive of professional investment managers is not necessarily to maximize long-term wealth for the client – but rather to maximize, as the client's agent, their own compensation, which is determined by shorter-term factors.

Thus, the "outsourced CIOs" that are typically hired to manage large pools of assets for family offices and endowments, wary of trailing the short-term performance of market indices (on which their success and their compensation depend), tend to hold little cash. To their mind, and to their paycheck, cash is an anchor, not an opportunity. Therefore, they typically keep their clients fully invested, at all times, across a portfolio of investment funds and products – and these products themselves are required to remain fully invested at all times (i.e., hold no cash). Compounding this setup, most large pools of capital keep a majority of their assets allocated to private equity, private credit, and private real estate, none of which can be converted to cash without years of advance planning. In short, in the topsy-turvy logic of the investment business, "cash is trash".³

The result, inevitably, is a fragile pyramid of illiquidity. In times of fear or crisis, ready cash is scarce – and thus extremely valuable.⁴

Bespoke's clients have the freedom to take advantage of these conflicts by thinking and positioning differently, and for the long term. The active use of cash adds resilience to the portfolio by transforming market "shocks" into value-creating events for your assets. Keeping adequate cash on hand means that you can move against the herd, and seize upon those opportunities that herd-like behavior, so very often, offers up for the nimble, patient few.

THE STEADY ROCK – HARD ASSETS

The Resilient Portfolio supplements cash with hard assets like gold. Physical, title-held gold has many advantages. First, it is a 'real' asset, in storage, not a balance sheet 'promise' (i.e., somebody else's liability to you). For Bespoke clients, we set up title-held physical ownership of precious metals, stored with private custody banks in Switzerland. In other words, your gold belongs to you and is physically set apart. You can visit your own

title-held gold in the vault in Switzerland; you can feel its weight; you can even give it a kick, if you like.

But solidity does not mean illiquidity. Switzerland, today, holds around 70% of the world's gold refining capacity, and Swiss private banks maintain streamlined operations for gold storage and transactions. With direct access to the (highly-liquid) Zurich gold market, your gold sprouts wings: it gains a liquidity profile comparable to less tangible financial assets that exist only on the computer screen.

Under this setup, gold is effectively an alternative form of durable cash, and can be put to work nearly as quickly as cash. This is a marked contrast to the liquidity profile of other real assets with similar 'enduring,' inflation-resistant properties, such as artworks or real estate.

When a crisis hits, and it's suddenly time for you to seize that buying opportunity, your physical gold can be converted to cash – and used to buy quality assets that others are selling at distressed prices – in about fifteen minutes. In fact, gold markets often become even more liquid during periods when other markets are in crisis and their liquidity dries up, because investors are fleeing other assets for the safe haven of gold. The contrarian liquidity profile of gold – you are prepared to sell it at the very moment when others especially want it – adds positive skew to the Resilient Portfolio. When plugged into the Zurich market infrastructure, gold is nimble, gold is quick. Just don't drop it on your foot.

Over longer-term periods, the major demand drivers of gold are counter-cyclical to most other assets. Gold performs well during periods of high or volatile inflation (which are like kryptonite for stock and bond values). Against a backdrop of high debt, financial repression, and geopolitical volatility – all of which tend to strain, and sometimes break, the dependable value of fiat currencies – gold really shines.⁵

Over the last decade, Bitcoin has established itself as 'digital gold' for a significant, and growing, group of global investors. Because of the algorithm on which it is based, it is mathematically more predictable and finite in supply than gold, and is increasingly demonstrating its inherent "store of value" characteristics. The network effects supporting Bitcoin have now been established, and once that happens, it is difficult to unwind them. Put simply, enough people have now concluded that Bitcoin is a useful store of value, and that has become a self-fulfilling prophecy.⁶

Bitcoin has two advantages to supplement its resilient, gold-like nature. First, it has the liquidity profile of a digital-only financial asset, and can be traded 24/7/365 without transport costs or other considerations inherent to physical assets like gold.

At the same time, Bitcoin is Janus-faced: while it is fundamentally a defensive asset like

gold, its relative novelty and the nascent stage of its adoption mean that Bitcoin's market price is highly correlated with risk-taking behavior around early-stage innovation. In other words, Bitcoin is exciting and new in a way that gold is not, which means it gains exposure to market factors that, over time, should be positive. When technology startup valuations and venture capital perform well, Bitcoin tends to appreciate in value too. Unlike those asset classes, however, Bitcoin does not require that you lock up your assets for a decade.

In this way, Bitcoin is a useful diversifier to traditional 'real' assets like gold, because it enables the Resilient Portfolio to gain some positive exposure to innovative, risk-taking behavior without the lock-ups or illiquidity of venture capital or startup investing. Bitcoin is gold with an innovation kick.

Thus the 'steady rock' at the core of Bespoke's Resilient Portfolio solution for clients. Combining the safe haven currencies with physical gold and Bitcoin holdings provides a resilient, yet liquid, foundation for long-term family wealth.

THE STEADY SEA – RESILIENT BUSINESS OWNERSHIP

Observe how each segment of the Resilient Portfolio discussed so far aims to be durable, but highly liquid. This is by design. In a sense, liquidity *is* resilience. It provides the freedom to move and to adapt when things change.

That idea of adaptation is exemplified by the flexible, living part of the Resilient Portfolio. Sitting on top of the foundation of durable cash and hard assets, Bespoke clients own a hand-picked selection of public, liquid, equity participations, in businesses that can stand the test of time, and can thrive across a range of environments.

What's more, the core of this equity portfolio is built on Swiss and Singaporean businesses, and denominated in Swiss francs and Singaporean dollars. In effect, then, you are enclosing a resilient business within a resilient nation-state and currency shell.

In business and accounting terms, the businesses we select for the Resilient Portfolio are highly resistant to the two forces that act like gravity to drive down returns over time: 1) competition, and 2) disruptive change. Competition, when other players seek to take a business' profits for themselves; disruptive change, when a new technology or way of doing things renders the business itself obsolete.

SWISS NICHE INDUSTRIAL CHAMPIONS

While the Resilient Portfolio has several investment themes along these general lines, let

us examine one of the most important, and one of the largest in terms of portfolio allocation: what we call the "Swiss Niche Industrial Champions."

This theme consists of a carefully-selected group of public equities of medium-sized industrial businesses, all based in Switzerland, but conducting business globally. The average age of these businesses is 146 years; the oldest was founded in 1802, the "youngest" in 1965. However, these are not outdated relics of a prior age, nor is their longevity just irrelevant trivia because they have morphed out of all recognition.

To the contrary, in each case, these businesses have built a commanding presence in some niche, high-value part of the industrial supply chain – vacuum seals, pipes, compressors, sensitive coatings, etc. – where they enjoy a #1 or #2 global market share. In each case, they have built that position by adapting and shaping some core expertise – fluid handling, for example – that has been in the company's DNA for a century or more.

In each case, their niche is large enough to generate significant profits, but too small to attract new entrants – putative competitors have no incentive or appetite to spend the many years and hundreds of millions it would take to build their own foothold in these niche areas.

On top of everything else, these Swiss champions operate in areas that are *sensitive.* Industrial pipes cannot leak; vacuum seals cannot break; the coatings on a high-performance tool cannot wear down prematurely and cause costly damage. These sensitive areas are not a major part of customers' budgets, and so there is little incentive for customers to "shop around" for a cheap supplier – they just need it to work, and work well. Thus, Swiss quality wins in these markets, and nobody wants to take risks on some unknown player. These businesses are highly immune to competitive pressure.

While the Swiss Niche Industrial Champions operate in markets that are growing and marked by constant innovation, that innovation is not so rapid that it leaves the oligopolistic competitive structure of their industries vulnerable to sudden disruption. Put simply, these companies sit in the 'goldilocks' zone of innovation: hot enough to drive long-term growth rates higher than GDP, and to enable the leading players to continue evolving and cementing their position, but not so hot that the industry is changing out of all recognition. Even in a world of the most futuristic AI techno-fantasy, it is highly probable – if humans are still around – that we will still need pipes and valves.

SINGAPORE PROPERTY

Another key investment theme of the Resilient Portfolio is Singapore property. In Part I, we discussed the inherent advantages of Singapore as a growing entrepôt for innovators

and wealth-creators from all over the East. One of the most attractive ways to gain direct exposure to Singapore's inherent advantages is by owning a carefully-selected portfolio of Singapore Real Estate Investment Trusts (S-REITs).

The S-REITs that form a key part of the Resilient Portfolio have two core advantages: first, they own class A properties on a small island where land is scarce and wealth is growing. Second, they are, in many cases, leveraged to the long-term growth of Singapore and its innovation- and service-focused economy.

For example, warehouse assets in Singapore that are set to appreciate with the growing volume of e-commerce in China and Southeast Asia. Class A retail and office space on the island offers significant cash flow yields, plus they are leveraged to the long-term growth of consumer spending, services, and the overall affluence of Singapore as a global hub.

The key criterion is that these investments own assets in a specific physical place. One business in the portfolio, which is not an S-REIT, actually has a government monopoly to own all of the fiber optic and internet infrastructure assets in Singapore, which it leases out to telecoms companies and other corporate users. These geographically-rooted businesses are heavily resistant to competition and can sustain higher profit margins, and higher returns to shareholders.

RESILIENCE, CHANGE, GROWTH

The public equity portion of the Resilient Portfolio employs variations on a theme, across Switzerland, Singapore, and a selection of developed countries outside of the US. What makes a business resistant to competition? Which areas enjoy growth tailwinds from innovation, but are secure from too-volatile technological disruption? And which are the safest and most stable international jurisdictions to operate in? That is the core of the analysis we conduct when selecting these investments for Bespoke clients.

The result is a portfolio of equity participations in businesses that are both resilient and adaptable, that both endure and grow. Further, because the high profit margins of these businesses often outstrip their moderate reinvestment needs, the majority of them pay out dividend income, of which the bulk is generated in Swiss francs and Singapore dollars.

The Resilient Portfolio, then, employs a combination of overlapping strategies to optimize for durability, long-term compounding, and income in hard currencies. It is well-suited to act as the hard core of a client's long-term investment portfolio, retaining its value in volatile times, while generating income to meet client needs, and maintaining liquidity and freedom of movement.

For more information, or to speak with a member of the Bespoke Advisory team, please visit us at bespokeadvisory.io.

ENDNOTES (PART I)

¹ Or in the case of "digital gold" – a thumb drive.

² The exception would be "hard assets" like gold or bitcoin, which we discuss in part II of this paper.

³ "[I]ndividuals whose grandparents belonged to the pre-revolution elite earn 16 percent more income and have completed more than 11 percent additional years of schooling than those from non-elite households. We find evidence that human capital (such as knowledge, skills, and values) has been transmitted within the families . . ." Alesina, Seror, etc. "Persistence Despite Revolutions," NBER Working Paper No. 27053 (March 2021).

⁴ Gregory Clark at UC Davis is the leading researcher on human capital and economic mobility over time. His 2014 book, **The Son Also Rises**, encapsulates his research findings that family surnames at the top of the education and income spectrum tend to stay in that position for many generations, even as individual fortunes are won and lost along the way.

⁵ In the spirit of Ataturk's French-style secular republic, the text of the law didn't explicitly target non-Muslims. However, implementation on the ground was deliberately concentrated on those urban centers where commercial wealth was dominated by non-Muslim groups (the Muslim wealthy were primarily land-owners during this period, and Muslim wealth was concentrated in the Anatolian heartlands). Tax assessors had significant discretion in valuing assets and setting tax rates on them, which they did far more aggressively when assessing non-Muslim families. In the end, 70% of the wealth tax collections were made in Istanbul, and 65% from non-Muslims – in a period when non-Muslims made up only ~2% of the national population.

⁶ Aside from being physically immobile (and literally easier to find and tax, no small thing during an era when government bureaucracies were small and under-resourced by today's standards), the big landed estates were typically subject to entailments – legal restrictions that prevented the sale, division, or transfer of the land – that made it harder for families to reorganize their property holdings or engage in tax planning through the use of gifting or trusts. As this and the Turkish example show, specific groups are usually targeted for wealth seizure, not by naming them

explicitly, but by formulating the wealth taxes in a manner designed to hit certain groups the hardest, according to the form in which they hold their wealth.

⁷ To be clear, many non-democratic regimes have incentives that encourage debt and currency debasement, too. The absolute monarchs of the 15th-18th centuries were notoriously bad credits, repeatedly causing inflation and clipping the gold value of their currencies to finance often-ruinous wars. They, too, were effectively seizing the wealth of their banker creditors to pursue their own ends.

⁸ Consider the United States, which was left with Federal debt equivalent to 119% of GDP, or ~8x annual tax revenues, when WWII ended in 1946 (for context, federal debt was an estimated 16% of GDP in 1928, before the US entered the Depression-WWII whirlwind). After the war, through a combination of interest rate repression (bond yields were capped at 2.5%) and high consumer price inflation (peaking at 14.4% in 1947) the government effectively devalued the currency and inflated away the war debt. This amounted to an indirect seizure of wealth from families to pay for the war – but given that the alternative was domination by a global Nazi empire, you could say it was probably worth it. Other examples are less black-and-white in their moral implications.

⁹ Among others, Barry Eichengreen's 1992 book, **Golden Fetters**, persuasively shows that the rise of popular democracies, and especially organized labor movements, in the early 20th century contributed to the adoption of inflationary currency policies in the 1930s. These policies were a marked contrast to the deflationary "cross of gold" adjustment period that characterized the "long depression" of 1872-1896 and that famously culminated with the populist movement of William Jennings Bryan. In 1930, Mellon called for a return to that same deflationary playbook. He was rejected, and the US devalued the dollar against gold. After 1930, never again would the state attempt "austerity" policies in the face of economic recessions. As Ben Bernanke said in 2002: "We did it. We're very sorry. But thanks to [expansionary monetary policy], we won't do it again." And indeed we haven't.

Incidentally, the Revenue Act of 1932 raised the top marginal income tax rate from 25% to 63%. It introduced a gift tax and doubled the estate tax. Mellon himself in 1934 was targeted by the New Deal administration for alleged tax evasion. In 1937, in part to reduce his looming estate tax burden, he donated a large chunk of his fortune to the US government, contributing his (now-priceless) Old Masters art collection and the equivalent of \$200M cash to build the National Gallery of Art in Washington. In the end, it was not the labor or farmers who were liquidated in the 1930s, but the great fortunes accumulated in America's more freewheeling age.

¹⁰ Like Communist Romania in the 1980s, for example. With the Eastern bloc countries having accumulated a load of foreign debt in the 1970s to finance industrial mal-investment, the Romanian communist dictatorship of Nicolae Ceaușescu, to pay back the debt and keep the currency stable, embarked on a policy of brutal economic austerity in the 1980s, because it was

determined to maintain access to foreign financial markets. While neighbors Poland and Hungary engaged in backdoor currency devaluations (and had a relatively easier time of it), the 1980s in Romania were marked by household "belt tightening" that was notoriously awful even by Eastern bloc standards, and had to be enforced by the state's infamous secret police. Food and especially meat were rationed; consumer goods were impossible to find; households were forced to use 40 watt lightbulbs so electricity could be exported in exchange for foreign currency. In one of history's cruel ironies, Romania ended up devaluing its currency and defaulting on its debt when the Ceaușescu regime collapsed in 1989 anyway, effectively rendering this decade of household austerity pointless.

¹¹ For Venetian history, John Julius Norwich's 2-part series is narrative history at its best. For a more analytical account, Romano's **Venice: The Remarkable History of the Lagoon City** (2024) is the book to read.

¹² This compares to a foreign-born population mix of 40% for both Singapore and Switzerland today. When you consider the changes in mobility and communication technology in the interim, Venice's rate of foreign-born population was extraordinary.

¹³ The "Fishpool hoard," discovered in 1966 by workmen in Nottinghamshire, UK – more than 1000 miles from Venice – contained over 1200 gold coins, predominantly Venetian ducats. It was hidden by a wealthy lord during the Wars of the Roses and forgotten.

¹⁴ Geography matters. Only twice in Venice's history – the 1378 war with Genoa and an attempted invasion by the Carolingian French under Pepin in 810 – had Venice been directly threatened by invasion, and no invasion until Napoleon in 1797 ever managed to reach the Rialto island itself. This physical isolation played a key role in helping Venice maintain its independence and entrepôt status.

¹⁵ Incidentally, the strongest geopolitical powers of that period -- the Hapsburg Spanish Empire and France – repeatedly devalued their currencies and defaulted on their debt because they were at war so frequently. Incentives, not geopolitical power per se, are what matter.

ENDNOTES (PART II)

¹ A portfolio consisting only of hard assets is, by design, static. The assets do not change; they simply endure. But even hard assets can sometimes be disrupted by innovation. Most obviously, Bitcoin has established itself as "digital gold" only in the last decade, and the same innovation and experimentation that led to its emergence also, theoretically, introduce some risk that it could someday be replaced by another form of digital gold. Silver is a hard asset whose relative value has mostly been declining for two-hundred years as it was phased out of currency systems and usurped by gold as the preferred metallic store of value. This was more of a social and institutional

change than a technological one. However, even as we write, diamond prices are declining -20% each year because new innovations in the late 2010s have allowed us to produce -- in a lab, and in industrial quantities -- diamonds that are structurally indistinguishable from those that have been laboriously dug from the earth. Not even diamonds are forever, it seems, and no "hard" asset endures indefinitely.

² In the US alone, the last 25 years -- a single generation -- has offered three separate "generational" buying opportunities (2002, 2009, 2020) in which a financial shock or crisis of fear caused the S&P 500 to briefly plummet by 33%-60%.

³ Just as Richard III, lacking optionality, famously cried "My kingdom for a horse!", so the institutional investors selling their assets at distressed prices in March 2009 or February 2020 might have said, "My kingdom for an uncollateralized source of ready liquidity!" Warren Buffett long ago recognized the value of having ample stores of liquid cash on hand, which is partly why he structured Berkshire Hathaway as an insurance company with a ready "float" to provide optionality and freedom. This has paid off for Berkshire on many occasions. When Goldman Sachs, over-extended and lacking optionality, desperately called for a horse in 2008, it was Buffett who stepped in to provide \$5 billion of much-needed liquidity at highly attractive terms. To Bespoke clients, with their generational wealth and long time horizons, we say: be like Buffett.

⁴ It's not *how much* cash is in the financial system that matters -- that doesn't change -- but *who* holds it and for what purpose. To be precise, as of 2025, US households, by far the largest holders of cash, held \$13.5 trillion worth of it. The median household had \$8,000 in cash balances. The wealthiest 10% of US households held a median cash balance of only \$111,600. Even the cash balances of the top 1% are typically earmarked for spending and fixed asset investment (real estate, etc.), rather than kept at the ready in order to buy financial assets in a crisis. Put another way, taking advantage of market shocks is a pursuit engaged in by a well-prepared minority -- a minority that includes Bespoke clients.

⁵ Gold outperforms during volatile periods because all financial assets are based on trust and promises -- and when times get hard, promises get broken. Even fiat currency is a promise; valueless in itself, it embodies the good will and the good management of the nation-state that issued it (see Part I for more on that topic). Like a bond or a bank deposit, fiat currency is someone's liability. By comparison, gold is nobody's liability. It just is. Nor can the supply of gold be increased by artificial means in order to pay off somebody's liability -- that supply is constrained by however much gold we dig out of the ground. Gold is a cynic. The best way to avoid broken promises is to not make promises in the first place, and gold acts as a store of hard value that endures outside the (sometimes frail) network of human interrelationships and trust.

⁶ Similarly, humans determined about 6000 years ago that, despite its finicky properties and unsuitability for practical tools, gold was rare and pretty and thus, inherently valuable. It has been going strong ever since. This is the power of network effects.

IMPORTANT INFORMATION:

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