

# Covenant Capital Extols the Virtues of Independence in Wealth Management



Edwin Lee, CEO of Covenant Capital, met with Hubbis to convey the firm's ethos that the advisory firm's integrity and its careful stewardship of entrusted investments should be the top priority for wealth management professionals. Lee, who drives the firm's strategic direction, calls for true independence, better education and a fundamental realignment of values.

## Executive summary

Covenant Capital is offering something that CEO Edwin Lee believes is rather different from the traditional model of wealth management. Steering clear what Lee sees as the traditional strictures of the private bank model, Covenant instead places clients in the driving seat, with the firm aiming to provide independent, unbiased, responsible advice in return for fees levied in as transparent a manner as possible.

Good stewardship is the Covenant goal, with a determined focus on alignment of interests with the clients. With deep investment expertise, open architecture and a commitment to integrity, Lee says Covenant offers a package of products and services that mirror the kind of dedicated, personal service usually only experienced in a family office.

Lee met with Hubbis to share some of Covenant's current and new initiatives, including the firm's proposed "realignment" of the investment profession, and the impetus to raise integrity and understanding through educational initiatives.



“**A**T COVENANT CAPITAL, we see stewardship as the careful and responsible management of that which is entrusted to our care by our valued clients,” he begins. “We want to be the catalyst for change in the wealth management industry, realigning investment professionals back to the core role of stewardship of client assets.”

Covenant Capital is in its third year of operation since its inception in 2016. “It is not easy to be a high-quality steward of assets in the industry’s existing infrastructure,” Lee explains. “When we set up our firm, we had a clear vision of an alternative to traditional management systems where investment professionals are able to perform the core role of stewardship on behalf of their clients.” Indeed, the word ‘covenant’ was chosen to represent the company’s values as it implies a deep commitment to responsibility.

Lee observes that there are two models of wealth management. The first is the traditional model, which is used by the majority of wealth management firms today. It is fundamentally based on the institution as ‘paymaster’, with the bank holding power over the wealth adviser who works for the bank more than the client. “The bank pays a salary and bonuses to the wealth adviser,” says Lee, “and in turn, the adviser gives investment advice and recommendations to the client; oftentimes this leads to a conflict of interests.

Lee acknowledges that many wealth management professionals face what he calls negative industry pressures. This, in turn, means that revenue and margin concerns sometimes lead

### Getting Personal

Edwin Lee was born and educated in Singapore, also participating during his college years in an exchange program in beautiful British Columbia in Canada, an experience which he thoroughly enjoyed. Lee later graduated from the Nanyang Technological University’s Business School in 2000 with a Bachelor of Business Studies, majoring in Financial Analysis.

Lee began his career with Salomon Smith Barney (SSB) in 2000, at that time providing what was designed as comprehensive investment advice to individuals and institutional clients over the course of the following 12 years. As he later assumed the role as the key manager for his team’s discretionary multi-asset class portfolios, he oversaw the team’s portfolio decisions, including the use of options to hedge and generate income.

Following his time at SSB, Lee spent two years with DBS as a private banker, advising HNWIs, ultra-HNWIs and their families. Before co-founding Covenant, he was with Swaen Capital, an independent asset management company based in Singapore, managing global asset allocation portfolios.

Lee is married with two children, a boy of 13 and a girl of 11. As a family, they foster children at risk and currently take care of an 11-year-old foster daughter. “It is heart-wrenching that while we are in wealthy Singapore, talking about money and investment management, there are children right on our doorstep that do not have a safe place to call home,” Lee comments.

His charity is also derived from the Christian faith, which is very important to Lee and his family. They belong to the Leng Kwang Baptist Church, where Lee is chair of the board.

In his leisure time, Edwin enjoys mountain-biking, running and adventure sports. Lee also serves as a division liaison officer for his Singapore military unit in the army on a part-time basis.

people to act in ways that are not optimal for the client. “This,” he warns, “might, for example, mean choosing a structured note with an opaque fee structure and poor payoff potential rather than expressing the trade with a simple exchange traded fund

(ETF). In short, this represents an inherent conflict of interest.”

### Independence – freedom from coercion

The second model, which Lee considers should be the independent model of wealth manage-



EDWIN LEE  
Covenant Capital

ment, puts the client in the position of paymaster. Their wealth adviser provides independent, non-biased advice based on the true value to their client in return for a transparent fee.

This is similar to the way in which family offices work. When ultra-high-net-worth (UHNW) families conduct business with the banks, they often do not work with the bank directly. Their family office staff would represent the family and act in the interest of the family, comparing products and pricing across banks, for example.

The interests of the families are thereby being taken care of by their family office, who work for them, not the banks.”

“We employ a fully independent model of wealth management,” he reports, “and we believe that it is what wealth management should be, where the client is the paymaster. The client pays our wealth advisers for independent advice, much like an

UHNWI will in a family office.”

As most HNWI clients are not of the type of wealth to avail themselves of family office services, Covenant essentially recreates a family office on an individualised basis, working for the interests of their clients and dealing with the banks or product providers, optimizing the service, returns and experience for the clients.

### **Stewardship – alignment, experience and open architecture**

Lee also describes the three pillars that form the critical foundation for a wealth manager to be an excellent steward.

“Firstly, there must be an alignment of interests,” he explains, “with a fee-based rather

than transaction-based system. The vast majority of revenue at Covenant Capital is from clients, and if retrocessions are passed to us, we pass them back to the clients in a transparent process.”

The second foundational pillar of stewardship would be a seasoned team of professionals with multi asset investment expertise. “At Covenant, the team averages 18 years of industry experience,” he reports. The majority of that experience has been in investment research and portfolio management roles, meaning that we can be relied upon to conduct primary research in addition to relying upon banks to form our own investment opinions.”

Lee’s third stewardship foundation pillar is an open architecture approach, with access to an ecosystem of platforms, research and products globally. Indeed, the ability to move beyond the restrictions of a single bank and instead look across platforms to find the ‘best of breed’ investment opportunities enables a beneficial increase in leverage and synthesis as well as making use of third-party research findings.

The multi-asset approach to investing means that Covenant strives to look across all asset classes including equities, fixed income, commodities, derivatives and alternatives. “This, he notes, “ensures that we are able to diversify our portfolios and manage risk prudently. It also allows us to better tailor portfolios according to the desired risk appetite in different macro environments.”

### **Multi-generational wealth management reaches multi-generational families**

At Covenant, the different generations of HNWIs are

#### **Key Priorities**

Lee is determined to convey the Covenant approach and to be a driving force for enhancement of the independent wealth management offering in Asia. "Our vision for the next few years is very clear," explains Lee. "We will be a catalyst for change in the industry, realigning investment professionals back to the core role of stewardship of client assets."

But how will this ambitious change be realised? "The first step is to future-proof our own investments team," Lee elucidates. "This means not only bringing more senior professionals into the firm but also training up the next tier of analysts. It is this vision, forward-planning and training of the next generation that is so highly important."

The next priority must then be wider education. "It is not only those in wealth management roles who need to understand the benefits of working within an independent model but also banks, relationship managers and ultimately the HNWIs themselves," he reports. "If we want to be a catalyst for change, we must communicate clearly and actively with all these parties."

A third priority is to further project this message of education and the business model by leveraging the capabilities, reach and professionalism of the Association of Independent Asset Managers in Singapore, where Lee serves as a committee member. "I have a fundamental belief that it is my duty to be a good steward of what is entrusted to me, and to educate others in ways to do the same," explains Lee, "so working with the professional body is part of that mission."

reached through different generations of advisers. “An experienced wealth adviser can connect with the older generation,” explains Lee, “but it can be off-putting for the younger generation to have to try to communicate with an adviser who is much older. Our solution is to encourage the building of multi-generational teams so that the second and third generation of clients can be suitably engaged.

Elucidating further upon what Lee considers to be Covenant’s

unique operating model, he explains that the firm sees itself as an ecosystem powering the growth of multiple wealth management businesses.

We provide the infrastructure, licensing, risk management, compliance, technology, investment & wealth management support for each wealth management team to perform the role of the family office for their clients.

We essentially support their businesses that are running within the Covenant entity.” ■