

How independents can deliver long-term investment performance for clients

How can independent assets managers differentiate themselves? What are their investment philosophies and allocation strategies? How can they win more discretionary business? The final panel of the Hubbis Independent Wealth Forum of November 16, 2017 gave some vital insights.

These were the topics discussed:

- *How can you differentiate yourself from a product perspective?*
 - *Value proposition to client*
 - *Experience with advisory fees*
 - *Plans for enhancing the platform and capability*
- *What is your investment process and philosophy?*
 - *What is the process?*
 - *Criteria for choosing funds / investments*
 - *Allocation process*
 - *Experience with DPM*
 - *What percentage of your assets are actively managed by someone else*
- *What are your investment allocations?*
 - *Liquid, alt, non-liquid (private equity, direct, real estate, hedge funds, wine/art)*
 - *ESG*
- *Advice*
 - *Have your client assets grown over the past 12 months?*
 - *How would you convince a client that the advice you give is worth a fee?*
 - *How do you convince a client that your advice*

PANEL SPEAKERS

- **Andrew Hendry (chair)**, Managing Director, Asia, Westoun Advisors
- **Joel Teasdel**, Vice President - Financial Advisor Services, Dimensional Fund Advisors
- **Harold Kim**, Founder and Chief Executive Officer, Neo Risk Investment Advisors
- **Harmen Overdijk**, Founding Partner, Capital Company
- **Ann Cooley**, CEO, Pacific Hawk
- **Richard McGillivray**, Director, Institutional Partnerships, CFA Institute
- **Joshua Rotbart**, Managing Partner, J. Rotbart & Co.



ANDREW HENDRY
Westoun Advisors





JOEL TEASDEL
Dimensional Fund Advisors

Hendry: Joel, could you explain what you do to support the Independent Asset Management [IAM] community?

Teasdel: Dimensional Fund Advisors (Dimensional) is a fund manager. We work with over 3,000 independent advisory firms around the world. Firms work with us because they like our investment philosophy and strategy. We help these advisors educate their clients around how capital markets behave and their return expectations.

Dimensional has worked in this area for 50 years and began working with independent asset managers some 30 years ago. Around that time, we found that advisers were leaving the Wall Street banks, private banks in Europe, retail banks in Australia and Canada; they wanted to work for clients in their best interests but were unsure if they could make a living going it alone.

In short, the firms we started working with had some assets, and some have grown to \$20 billion AUM now and are very profitable. Part of our help is creating a knowledge sharing community and we played a role in helping them build portfolios, helping them communicate to clients, but also offering our knowledge of running a wealth management business, delivering investment solutions.

Hendry: Richard, the private wealth area seems to be a central focus now, with the CFA Institute promoting it, so how do your efforts in Hong Kong funnel down to help the IAMs?

Mcgillivray: We are a not-for-profit organisation, so we are entirely mission driven. Accordingly, I would say that our most important offering to the wider financial community is our willingness and ability to connect people. We aim to collaborate and disseminate ideas and information, so our website is quite elaborate with a lot of history there, some 60 years of accumulated knowledge.

Individuals, family offices, firms, societies can all reach out directly to us in Hong Kong, or to CFA charter holders who are members of the societies. Some of that service and support may be in connecting to other people, which we are very happy to do. Hence, we are almost a community resource, rather than a go-to point for answers.

We have structures, codes and standards that support businesses and those are free to access and use. So, for example, the Global Investment Performance Standards is an interesting concept of how firms present their performance through an aggregation of portfolios. These services are globally supported and free of charge.

A new service, also free of charge, is 'ARX', or the Asia Research Exchange. It is a collection of free research that is Asia focused and has a considerable academic contribution to the industry, which is increasingly highly valued. ARX combines practitioner offerings, firm offerings, academic offerings and conversations around those which themselves will connect industry-wide people.

I should add that a strong theme we have noted in recent times is an increasing interest in the social capabilities. It is a significant competitive advantage for independent asset managers to be highly capable in their interpersonal relations. Though we specialise as an organisation in technical training, I am often asked about training in social ability, in other words how to speak to clients and understand some of their psychology and behavioural attributes. And it is especially vital to independent asset managers to maximise their skills. We do not offer this training, but I felt it worth noting here.

Hendry: Harmen, you are the founding partner of your firm, could you introduce Capital Partners and give us some insights?

Overdijk: We set up only in January this year [2017] with a mission to provide full-service wealth advisory for global citizens, helping families plan their long-term wealth strategy and with a specialisation in helping clients with US assets or citizenship.

We are owned by the partners, not a bank or product provider. We all have many years of experience in this business and we pride ourselves on transparency, for example our fees are clearly set out for clients to understand.

We are not tied to any platform, service or product provider, which allows us to make decisions based on each client's best interests. We pay for independent research that comes from the best brains in the business. Additionally, we are a fiduciary, focused on the best interests of our clients without bias towards any investment products."

We have chosen to become a 'fee only' firm. Clients pay us like they might a lawyer and as with a lawyer



HAROLD KIM
Neo Risk Investment Advisors

we act in the client's best interests at all times. This transparency is a trend you will see more of in Asia in the years ahead.

As to our investment approach, we focus on the long-term and achieving wealth preservation. It is essential to focus on what the client can control, their risk tolerances and diversification. A disciplined investor looks beyond the concerns of today to the long-term growth potential of markets.

Hendry: Joshua, what do you do for the IAM community, how do you aim to interact with them and support them?

Rotbart: J. Rotbart & Co solve many of their headaches for them. Their problems could be anything from the closure of a client bank account and they need to do something with the money, or perhaps one of their clients saying they want to invest in physical metals, which is usually beyond the scope of most IAMs.

There are many areas we help with but, to distil this, we solve problems their clients might have, so we often meet those clients and help the IAMs resolve whatever requirement they might have. We operate securely and confidentially, so everyone can sleep well at night.

Hendry: Harold, can you introduce yourself and the firm you founded?

Kim: Neo Risk emerged from the concept that the risk assessment and management element in clients' investing process was missing, for example different tools in quantitative finance such as derivatives, asset allocation, algorithmic trading or quantitative risk management.

These are all tools to impact the risk side of the equation and we found this lacking in firms such as insurance companies all the way down to family offices. Hence, we created Neo Risk and our core product is risk-based investment advisory. We work with institutional clients and family offices to help them think about risk in their own context.



HARMEN OVERDIJK
Capital Company

As an example, we did some work for a very large insurance company that was unhappy with their performance during difficult periods in the markets from 2008 onwards. They had not changed their risk assumptions in 10 years, while in 2008 market risk quadrupled. We set about adjusting their risk assumptions and allocations to improve performance.

Another example is the work we are doing with a billion dollar long and short hedge fund. These people really know how to choose stocks, with broad experience, but they reached out to us and asked for help in risk management. Why? Because in 2015, for example, they were up 35% and then they gave it all



ANN COOLEY
Pacific Hawk

back. Then in 2016 they had a horrific start to the year because of very high volatility.

We helped them think through to the creation of a portfolio allocation process that was much more risk sensitive than they had used before. And we helped them think through risk in relation to the portfolio net positioning, via a very qualitative process.

What we achieved was the establishment of a protocol and structure so that they could more accurately understand and interpret the risk in the market, manage risk in the portfolio better and try to align it more accurately. That did not change their fundamental investment philosophy or process, which was always excellent, but it did help them manage the downside when things went south.

We also run our own fund, which is fast becoming a proven concept, having started it a year or more ago, with the primary initial investors family office high net worth individuals.

Armed with this experience, we are pleased to talk to clients who are interested in our philosophy and who want to enhance their focus on risk assessment.

For example, in 2011 did they take proactive steps? In 2015, in Asia when the markets went up, how did they think about risk positioning in their markets?

If the answer was ‘well, I did my questionnaire with my private banker when I opened my account and they told me this is my allocation and it has been the same ever since and I have never heard from them since’, then for sure this is the type of client who is missing a core element of the investment process and to whom we can add significant value.

Hendry: That is an ideal introduction for me to transition to our next area of focus, which is on individuals. Ann, with your experience of more than 25 years dealing with top level people and running your own business now as an independent, can you share the challenges and strategies for moving Asian investors to a discretionary model, or winning them over to your firm? Your insights will be of great interest to the IAMs assembled here today.

Cooley: Before I start on that, I would like to add something, namely that experience counts, and I think the audience can see that the panel here has 10, 20, even 30-years of experience that I believe is vital to our business. It is certainly a key feature of our as-



RICHARD MCGILLIVRAY
CFA Institute

set management group that we have people with very considerable experience.

Secondly, people with experience, people who are willing to listen and share, can engender a collaboration process; that has been critical for all of us here to be able to grow to where we are today.

The evolution of the fund management industry has reached a stage today where everybody now wants to be a specialist. Younger people do not seem to want to know about everything. They want to be a specialist in this area, or that area, whether bonds, or stocks, or this country or that country, or this or that sector.

Another factor we see is that we are all getting lost in information due to the proliferation of technology and software. As an amusing aside, I was due to have lunch the other day with my former professor, but he did not arrive. He apologised and explained that he got lost trying to figure out how to tie an app to his diary and got lost in it. He told me: 'Goodness, I have simply got far too much information coming in, I just do not know how to find anything anymore'. I think we can all empathise with that.

Coming back to the question of conversion of clients in Asia my experience is that Asian families are accepting of a considerable degree of risk, but that our job is to protect the long-term growth they achieve, as we ourselves are long term investors.

I have been through six crashes and I have never lost a client in any of them, because we start and continue by always talking long-term. We tell our clients that despite all the ups and downs to be expected, we can achieve a level playing field to attain a certain level of performance.

I came to Asia in 1997 to set up my business, not speaking a word of Chinese and never having had a Chinese client before. In those days it might have been an advantage to appear out of the blue as a foreigner, with the London and international halos. Remember that Asia then was so Asian centric.

The transition for me was simplified as I was bringing a global perspective, bringing in global managers, global-perspective stock pickers who really were achieving the type of Warren Buffett levels. That was then, and those fund managers have now retired so today we work more collaboratively with the other

IAMs, the other managers, the rocket scientists that are out there.

We also stress the latest technology in portfolio management theory, so that we can help make money and protect money for my family clients in London, Hong Kong and elsewhere.

Hendry: Thank you Ann. And Joel, how do you convince the end client to hand over discretionary mandates?

Teasdel: I think honestly it is the same in other parts of the world. You talked about the trust and trust asset and so for the client everywhere, transparency is crucial, I cannot stress that strongly enough. Independent advice, independent custody, independent investment management solutions are highly valuable.

We are investment managers. We concisely articulate to the clients where they are, we aim to understand their motivations and goals and then help them head where they want to go.

We have a highly systematic framework to help clients. We set about understanding the family goals, understanding the family dynamics, and then help the clients maximise the probability of achieving a positive outcome. We can ally investment theory with client understanding and that is a terrific opportunity for IAMs as the client will never obtain that level of service from the banks.

Those who will be successful at this are people who can develop trust and rapport with their clients, who can help them manage their emotions. This is where the field of behavioural finance and modern finance and modern portfolios is coming together. I think the only people who can do that in a fiduciary capacity are independent advisers. ■



JOSHUA ROTBART
J. Rotbart & Co.