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The World According to Brutsch: Defining and Refining Independent Wealth Management in Asia

It is just over 10 years since managing partner Urs Brutsch founded the Singapore-based independent asset management firm HP Wealth Management, which since then has carved out an enviable reputation as one of the leading independent firms in the region. Hubbis met with Brutsch to find out how he and his colleagues have achieved so much from a standing start in only a decade.

FROM HIS LONG EXPERIENCE of both Asia and of wealth management, Brutsch knows that it is easier to fail than succeed in this business. He sticks rigorously to the principles of consistent, meticulous attention to the client relationship and to their expectations. And he knows that in order to truly succeed, an independent firm must go the extra mile and achieve more than only meeting client expectations - Asia's HNWIs often also require robust, well-informed guidance covering the full 360 degrees of their wealth management and planning needs.

With three decades of wealth management experience, all in Singapore, and with the most recent decade spent building HP Wealth Management (HPWM) into one of Asia's leading independent asset management (IAM) businesses, Brutsch clearly has a deep knowledge both of the industry he loves and of the region in which he has made his life.

HPWM, since its inception, has been offering discretionary and advisory portfolio management to Asia's high net worth individuals. And back in 2012, in what now can be seen as a highly prescient move, HPWM launched its family office operations business, which now enjoys a portfolio of family offices as clients for whom the firm provide bespoke services and advice.

HPWM is therefore well-balanced and set for the future, Brutsch believes. He and his two senior partners, alongside the team 22 people today have two clearly differentiated but closely connected legs to the business, the HNWI private client IAM business, and ultra-HNWI family office business. "We have achieved a nice diversity of clients," he reports, "so for example, if we only had the family office business and with a handful of very big clients in that segment, losing just one is a big hit potentially."

And the small number of family office clients boasting huge investible wealth - a typical single-family office will have upwards of USD100 million of financial wealth - neatly balance off the larger number of HNWI clients for whom HPWM advises on and manages the typical USD3 million to USD10 million portfolios.

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Knowing what the client wants ... and needs

Brutsch is therefore evidently very well positioned to survey the wealth management landscape of Asia. "High net worth and ultra-wealthy clients may know what they want," Brutsch begins, "but they may not actually know what they really need. The average wealth relationship manager, whether in a global or boutique private bank or at an independent, is all too often not sufficiently skilled, or experienced, at asking the right questions to determine what those clients want, or more importantly advise on what they really need to do."

URS BRUTSCH
HP Wealth Management

However, Brutsch maintains that the highly skilled RM, armed with the right experience and inter-personal empathy, can identify their clients' hopes and needs, even if those clients don't at the outset of the relationship know this themselves.

"This all takes time," he reports, "in fact, sometimes it can take years to adequately understand the client. But it is vital to strive to this understanding before the adviser can accurately zoom in on the optimal solutions, in terms of investments, structuring, estate planning, and succession."

Role-playing the client relationship

Brutsch recounts his experience teaching for a stint at Singapore Management University (SMU). During some of his classes, he recalls that in some classes he initiated role-playing of client-advisor meetings, and the students then drafted call reports with their recommendations. Out of 25 stu-

dents, roughly 20 came back after just that first meeting and said they recommended jumbo life insurance for their hypothetical client. "They usually had no valid reason," Brutsch reports. "But we all know the reason - jumbo commissions can be earned by RMs from jumbo life insurance."

He also recalls that there was one student who played the role of the client and quizzed his fellow student as to what he might make out of the life product. "And that," says Brutsch, "was smart, because the shrewd clients should also ask questions, they should mine down into the motivations of their advisers."

Expanding on the skills and character an RM requires for success in any wealth management firm, Brutsch says that in HPWM's hiring he looks for a number of things: does the RM have relationships which are truly his/hers, is the RM comfortable to discuss the financial markets with the client, and does not rely on "product specialists." Also, it is important that the RM's vision of wealth management is aligned with that of HPWM: it's about building relationships, not selling products.

What are your plans?

"At HPWM, we focus our discussions with potential hires heavily on their career and personal plans and objectives," he reports. "What is their 5 and 10-year plan? What is their outlook for the industry and how they will position themselves? On what measures do they expect to be evaluated and compensated? Clients should actually also want to know these things, as they are putting their trust in the firm and in the RMs who will work with them."

Brutsch explains that clients should also seek to know who is behind the RM they will deal with, who at the firm provides the support and ideas, even if that RM is doing most of the face-to-face liaison with the client. And they also need to understand who is leading the firm and whether that firm is offering the right strategy and outlook in order to offer the client consistent and sustained advice.

He extrapolates, explaining that these insights and this approach have helped his firm build up the depth of skills and experience that would allow it to sustain itself, should any of the leaders to step aside.

"I think HPWM is rather well-diversified in this regard also today," Brutsch reports, "with key-man risk well under control. We would comfortably survive key members leaving, whereas five years ago that would not have been the case."

He expands on this, stating that the firm's three leaders - himself and his two business partners Michael Foo and Stephane Schmid - all want to make sure HPWM survives each of them, that the firm endures.

Staying the course

"We have a succession plan, which is important," he reports, "but right now we all see another 10 years in this role. I am 58, Michael is 52 and Stephane 51, and while we might downsize our roles, for example I might step aside from the CEO role but stay on in an active and advisory role such as non-executive chairman, we are determined to see the firm continue its journey, we want to create an enduring business, like some of the leading Singapore law firms, for example."

He says this type of sustained, stable quality is an important element of the psychology of clients in relation to how they should be selecting the firms and the individuals within those firms to work with.

"The typical client's questions for their advisers tend to focus rather too much on performance," he says, "and not sufficiently on other key areas, so discerning clients should also think about the ownership profile and the firm's strategy, and the overall fit with themselves."

When dealing with a larger bank, he says this not really as relevant for the client, but with a smaller firm, it takes on far greater importance. "The typical HNW client dealing with a smaller asset management firm should think about whether the owners look like they are going to sell out, or whether key people are likely to retire," he says. Both parties, the clients and the advisers, are usually deeply invested in their wealth management relationships, so this type of longevity and reassurance on the future is important.

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Brutsch notes that having bought out a minority shareholder two years ago, HPWM itself is totally in control of its destiny. "We have a strong and expanding team here today," he reports, "and we are carefully moving down our growth path. We certainly have no intention of selling out."

He also maintains that the smart HNWI client should seek to understand the investment philosophy and approach of the firms they hire. "Other key concepts include the alignment of the firm with the client in terms of investment approach and outlook," he explains. "How for example, do the firm's principals invest their money? How does the firm invest for its clients, and are those strategies aligned?"

He notes that HPWM tends to attract the types of clients that

resemble its own DNA, which is fairly conservative, wary of leverage and less focused on insurance, as they have plenty of money anyway. "We have clearly defined approaches to investments and portfolio construction," he reports. "We are highly disciplined in the way we oversee discretionary and advisory portfolios."

The firm's investment committee, chaired by HPWM's CIO, meets regularly to determine the strategic and tactical asset allocation. To ensure the right risk controls, the firm also involves two independent people, with compliance and risk management checking on the execution of the mandates within the risk profiles.

"The one unifying characteristic of our team is that we have the same vision of dedication to client needs and an almost forensic focus on achieving the goals we agree with them," Brutsch reports. "We are not perfect, but our clients soon understand that we are objective throughout and committed to their cause."

Know your class...

Another question Brutsch has thus far never heard from a single client is to ask which class of mutual funds their adviser accesses for them, for example. "Unlike the banks who usually chase the highest fees," he comments, "we always seek out the best deals for our clients, so in the mutual fund space, we always go for the institutional class with lower fees. All too often, we hear that the clients had never known that this was an option, and they did not know there was such a difference in the costs between the institutional and retail classes."

Brutsch expands on this point, reporting that from the outset HPWM would be paid by the clients, not by the banks. "The model was that we took over the negotiation of fees with the banks for the clients, in order to obtain the best deals, and we would then layer on top our DPM or advisory fees so that the overall cost to the client was at or below what they previously paid," he explains. "We have remained true to these views."

Keeping things transparent

HPWM has also from inception eschewed retrocessions or trailer fees. "We have always wanted to be clear with our clients," he says, "and have not wanted to change the fee model. We believe you cannot give honest advice if you take retrocessions because your recommendation, your thought process, is poisoned by those revenue considerations, meaning you might not then give the best recommendations to your client all the time."

Additionally, HPWM has stuck to its original concept of not trying to separate the client from their custodian banks. "The idea was to keep the assets with those banks - this is where most clients felt comfortable - but for us to be appointed to manage, or advise on, the client portfolios," he elucidates. "We institute a limited power of attorney, so we can interact with the bank on behalf of the clients and transact as either we decide on a discretionary basis or as we agree on an advisory basis."

In terms of their risk exposure, custody, Brutsch explains, should not be a major concern for clients, because their assets are segregated from the institutions that hold them. "But when there is cash at the custodian," he remarks, "that is when the client is exposed to the creditworthiness of that custodian bank or the big online brokerages and platforms. Clients do need to think about their exposures there."

He believes that the HPWM approach has served the firm well

and allowed them to avoid the nuisance and lack of transparency of retrocessions or other opaque deals with private banks and other institutions.

"In general, we also try to avoid performance fees because they may encourage the advisory firm to take more risk than advisable," he adds. "Our clients know where they stand with us, they know we are always actively negotiating the lowest possible fee for the client with the banks and they know our advisory fee or investment management fee."

Brutsch believes that HPWM's success is therefore in good part founded in having carved out an excellent niche where the firm does not compete head-on with the banks.

"Most clients will not trust their bank or banks with all the information on their portfolios," he says. "They prefer the model of keeping those assets secure with the banks and then working with us on the formulation and management of strategic asset allocation, with regular tactical adjustments for the client."

Looking to the future

Brutsch and his colleagues are also thinking of the future clientele of HPWM. These younger generations of actual or potential clients, sometimes the offspring of the founder generations, or perhaps the makers of Asia's new wealth, have different demands in terms of their expectations, and of their relationships.

"We are working hard on building our relationships across the generations," Brutsch reports. "This is not always so easy, and I cannot say we would retain them for sure if we have worked with their family already, but we place a lot of emphasis on these relationships and work hard to connect to them."

Keep it in the family

Brutsch also highlights how the family office has become far more popular with Asia's ultra-HNWI families, as have multi-family offices for the next category of wealthy clients. This business segment has also helped HPWM build multi-generational relationships with its clients.

"The family office has grown in prominence in the seven years since we began our business in that area," he reports. "A potential single-family office, which is our typical client, is very much worthwhile if you meet certain size criteria, and by that, I mean at least USD100 million of investment potential. Our sweet spot today is between USD100 million and up to USD1 billion, that is where we can add value for a client, as it is actually much cheaper to plug and play with us, rather than the client establishing their own single-family office."

He explains that HPWM has all the systems, software, licences, private bank and other relationships, expertise and experience, all bundled up neatly in one shop.

"The true cost of running a single-family office is really quite onerous if you do it all properly," he reports. "A good CIO, for example, does not come on his own, he needs the right support, and you do not want to be exposed to him suddenly leaving, so the client needs to think about that type of key-man risk. This is where we have been successful, as our service sidesteps a vast number of concerns for them, and offers professionalism, stability and continuity."

Family adventures

HPWM ventured into the family office space back in 2012. "The family office space was a natural extension for us at that time," Brutsch recalls. "It fits our independent asset management model and our culture."

The family office space is characterised by differentiation. "Every family office is different in almost every facet, whether it is their investment philosophy, reporting requirements, location, or the banks they work with," he reports. "We generally consolidate the family office positions to allow for all the investment recommendations to come through us. We then check if those fit into the strategic and tactical asset allocation that we have helped them devise. Accordingly, we can go to the client and say we can do this or not do that, with a clear and defined reasoning for each decision. Then we consolidate and report back to the client every month."

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Another growth area for HPWM is the private markets practice, which includes private equity, private debt, and private real estate. "This is an excellent adjunct to our traditional IAM and particularly the family office business," Brutsch explains, "as it takes us into a new realm away from the public markets to further expand our range of offerings for certain clients."

When more is actually less

Brutsch draws the discussion towards a close by offering some further insights into the broad landscape of wealth management in Asia, concluding that the market will likely end up comprising a small number of really huge players, following more consolidation, and some niche players such as HPWM.

He says consolidation in the private banks is inevitable because the profitability is no longer what it was. He observes that there is a lot of bravado in the private banking industry within Asia, but that it is often smoke and mirrors. "You see a lot of managing to the gallery, to the head office," he explains. "For example, a new leader might arrive out here from Europe, and then announce a plan, paint a rosy picture for the HQ, build budgets, and then request the funding. But frankly, they rather often fall short, and then those people often move on. Private banking profitability is under a lot of pressure, and we certainly envisage more consolidation over the course of the next few years."

Moreover, there are more and more alternatives to private banks for custody arrangements and other supportive architecture, and at lower prices. "In the next decade, we will need the private banks less and less even for custody and execution," Brutsch reports. "There are more alternative, independent and very sizeable platforms out there. And the research normally comes from the investment banks or from other brokers or houses."

In that environment, he foresees that for the larger clients at least, custody will ultimately go to the types of names such as Pershing, or Bank of New York, State Street, or Swissquote, while execution will go through names such as Saxo Bank, Interactive Brokers, and others. "IAMs such as HPWM can then leverage whatever infrastructure they still need from the private bank community, which will help us remain focused on the clients and with our cost-income ratios under control."

Ongoing disruption

His final word is that the disruption in the private banking world is unlikely to be reversed. "I would not want to be in a private bank in 10 years' time, honestly," he states. "An issue is that every bank thinks they need to have everything, they think they need to have the structured products, fund research, they need to have this and that, which results in layer on layer of cost. The truth is you do not actually need these huge machines any longer."

HPWM is a decade old and looking ahead another 10 years - the timeframe Brutsch is currently surveying in his role at the firm - it will be fascinating to see how the world of Asian wealth management market plays out. If some of the predictions Brutsch makes come true, and some of the words of caution he offers are in fact heeded, then the region's wealth management landscape will be very markedly different from today. ■