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Differentiation Game: How IAMs Survive & Prosper

To survive as an independent, or external, wealth adviser or asset manager you need to differentiate your offerings both to clients and to the 'street' so that you can win and retain customers and top-level hires. A panel of experts gave their insights at the Hubbis Independent Wealth Management Forum, highlighting the opportunities and challenges for today...and tomorrow.

These were the topics discussed:

- *What are the different business models? What's working?*
- *Is there a growing divide between local IAM's and European style IAM's? To what extent it this an issue?*
- *Are you genuinely client-centric? Independent and transparent?*
- *What are some of the ways EAM / IAM can differentiate themselves from a typical private bank?*
- *What must this industry do to dramatically move forward?*
- *Innovation and evolution - How will you adapt to constant changes in technology, investor behaviour and regulation?*
- *From a non-investment perspective - how do you service your clients and add value?*
- *How are you considering the next generation?*
- *What does the client really need from you? Typically, do they even know?*
- *How will choose your 'future leaders'? Whats YOUR succession plan?*

PANEL SPEAKERS

- **Tariq Dennison, Fee-only Investment Advisor, GFM Asset Management**
- **Urs Brutsch, Managing Partner & Founder, HP Wealth Management**
- **Kenneth Ho, Managing Partner & Founder, Carret Private Capital**
- **Oliver Balmelli, Deputy Chief Executive Officer and Head of Private Banking, EFG Bank, Singapore Branch**
- **Jaydee Lin, Executive Director, Raffles Family Office**

TARIQ DENNISON
GFM Asset Management

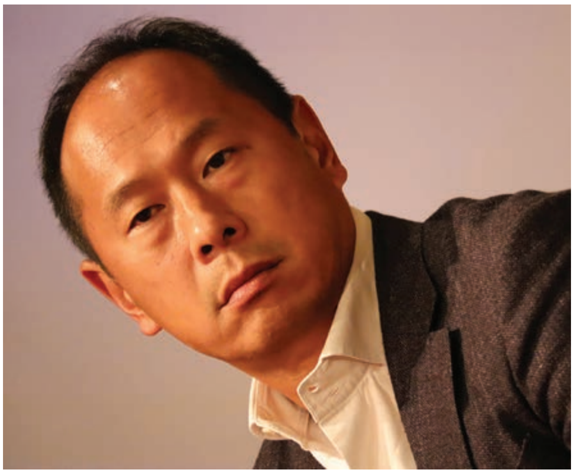
WHAT CAN BE GLEANED FROM THE developments taking place in Europe, an altogether more mature wealth management market? Are the independent or external asset managers (IAMs and EAMs) in Asia genuinely independent and transparent? Are they sufficiently client-centric, or do they simply pay lip service to that concept? How do they differentiate themselves from private banks? Are they embracing technology and spending wisely? Are they focusing sufficiently on the younger generations, or simply the 'bird-in-the-hand' clients? Do they have a succession plan themselves that will allow the business the endure?

The end of retrocessions?

"We must rid this industry of retrocessions," began one veteran of the business. "Here in Singapore the vast majority of the firms still work on retrocessions. We should be paid only by the clients. Hopefully, the regulators will put an end to this before long."

A fellow panellist concurred, adding that virtually every business in the world is price sensitive and, in the services industries, for example, a hospital or law firm charge the clients directly. Imagine the doctor telling his patient that we will not charge you, but then taking a huge cut from inflated medicine costs. We have accepted this model for years in our industry and the result is the client thinks they are either getting something for free or don't have to write a

JAYDEE LIN
Raffles Family Office



KENNETH HO
Carret Private Capital

separate cheque for something. We all need to be more innovative and progressive in this regard."

Another expert reported that his firm has a direct fee model, levying a modest management fee for high-net-worth individuals (HNWIs) with USD10 million or more and a keen performance-related fee. "And for the ultra-HNWIs," he noted, "it remains more product driven where we are providing access to certain alternative assets, for example, that they cannot easily source from the private banks. Perhaps our biggest advantage is offering the multi-custodian route and the best solutions out there."

Public to private

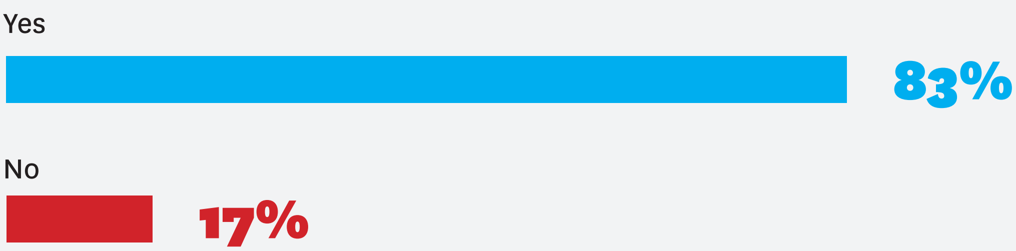
"We have been expecting the downturn in the mainstream public markets for a couple of years," reported another expert. "Accordingly, we have been developing our private markets capability, such as private equity, private debt and private real estate for a select few clients. We feel the returns will be better in these areas for the next five or more years."

Another guest commented that the EAM business is already substantial in Switzerland but that Asia lags behind, despite the very rapid growth in private wealth in Asia. "We see a strong rationale for expansion in both Singapore and Hong Kong, which balance each other neatly as to geographies and types of clients," he said.

The EAM penetration rate in Switzerland, according to a report cited by one panellist, is 30%, whereas in

URS BRUTSCH
HP Wealth Management

DO YOU EXPECT THAT THE INDEPENDENT WEALTH MODEL IN HONG KONG WILL GRO DRAMATICALLY IN THE NEXT THREE YEARS?



Source: Independent Wealth Management Forum 2018 - Hong Kong

Singapore and Hong Kong the number is around 5%. “The potential for growth is very clear,” he commented, “so for us, we cover China through Hong Kong and Singapore mainly for the Southeast Asian markets.”

Another expert whose firm focuses largely on Mainland Chinese clients noted that the private wealth is largely first-generation money with clients in the 35- to 50-year old range. “With higher starting points for interest rates,” he noted, “we have been focusing more on the alternative space, especially real estate, to achieve the types of returns these people expect, but it is tough to match their demands.”

OLIVER BALMELLI
EFG Bank, Singapore Branch

Regulatory demands will change the industry

Looking ahead to the shape of the independent wealth sector in the coming year, a panellist anticipated considerable growth but a dramatic reduction in retrocession fees. “The smaller players face headwinds, especially from the regulatory perspective. “To obtain new licenses here in Singapore, for example,” he noted, “you need to overcome several hurdles such as a number of directors including independent members, compliance officers, so on and so forth. This means that any private banker wanting to step outside the big corporations will likely be better advised to move to the established EAMs because the outlook for smaller or new entrant competitors is tough.”

“Our business model is transparency,” he added. “It is not easy to claim we are better managers than anyone else, as we are probably not. We charge a management fee and we are conservative, a safe pair of hands. We appeal to clients who want to stay rich. We are fortunate as well as around two-thirds of our revenues relate to DPM, which is unusual in Asia, but our clients like our approach and our interaction with them, they trust our advice.”

Getting things done, not imposing views

A fellow guest explained that his clients pay him to get things done, not for advice. “They don’t want me to tell them what to do,” he said, “we focus on

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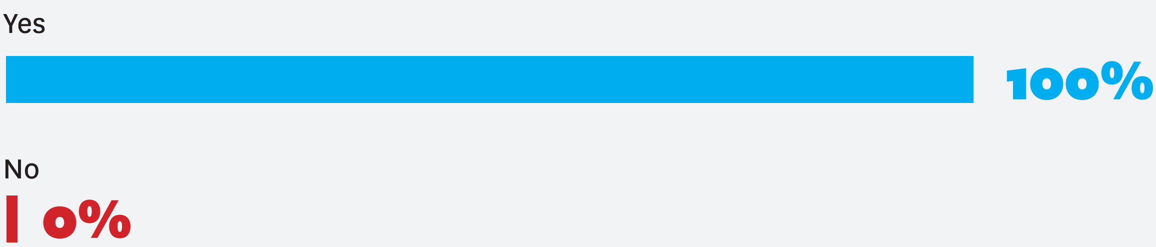

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adding value, on how we can do something beyond just pure investment side, something that we have demonstrable expertise in."

A panellist noted that a core challenge is hiring top talent. "There might be very competent bankers out there," he observed, "but they so often lack the thrust to be entrepreneurial, to leave the comfort of the big corporate. Even when we filter out someone who looks right for us, it is very tough to convince them."

"To expand in this sector, one needs bankers with anchor clients and then we can expand out from there," another expert commented. "We offer far more than just portfolio management, we offer a far more holistic approach, we present ourselves as the trusted adviser, we help clients in their financial planning, in their succession plans, even in their travel plans, helping their children as a counsellor and so forth."

A fellow panellist noted that acceptance of the boutique wealth manager is much more accepted in the US and Europe than in Asia. "We are actually at the early stages of building that sort of confidence," he observed, "and a major step is certainly being able to deal with high-quality counterparties for custody, which of course is vital in providing clients with confidence."

Looking to the future

Business leadership succession is also a vital topic for boutique firms. "Most IAMs are dependent on one or two key people," noted one expert, "Recognising this, we focus on finding the future leaders who can take the key roles in our bank, it is an ongoing initiative globally for us."

"Succession is tough," commented another panellist, "as most of the relationships we have with clients are closely linked to personal relationships with our partners and if we lose them it is not clear at all that the clients would stay with us. As to the clients themselves, we work with family offices, for example, where we aim to instil appropriate governance practices, so they become more institutionalised, in which case it is easier to maintain those relationships as people change. However, it is a constant challenge to retain clients when their founder-patriarchs or other key people die or pass over their wealth."

The discussions closed with brief comments on some key priorities for the industry to focus on.

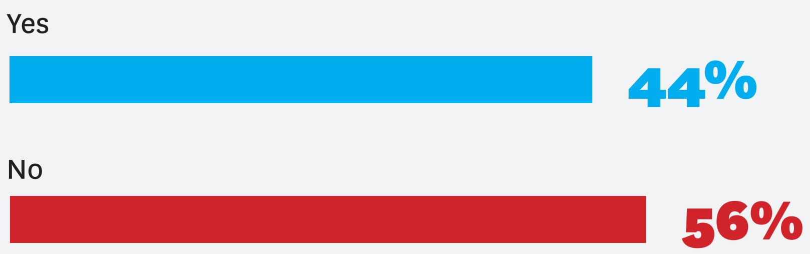
Up close and personal

"Being truly client-centric is essential," said one guest. "Of course, we must all pay our bills but by being personal with the clients we can ensure that we stand out from the crowd."

"Stay close to your client," advised another panellist. "Be prepared for change, especially driven by the regulators and the new generations of wealthy emerging, as they will certainly be more demanding. Expect consolidation given the rising costs of doing business."

"I see two extremes," said another expert on closing the panel. "The major global private banks can operate at massive scale and low cost per client. Then there are the small and independent firms whose clients hire us because we will tell them things that those giants will not. We must be distinctive and authentic, we must be personal and we must be smart." ■

DOES A PRIVATE BANKER UNDERSTAND THE BENEFITS OF JOINING AN INDEPENDENT WEALTH MANAGER?



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