

You've Never Had it so Good

Since its inception, the wealth management industry has evolved considerably, but what does the future hold? **Mark Rayward** provides some inside predictions

The wealth management industry looks vastly different now compared to the days of its inception. Before the 1990s it had not yet developed into an industry in its own right. In its early days, it was characterised by lots of smaller firms providing a form of their investment management services to a very specific type of wealthy investor.

Many of the firms that began to provide these services in the early days, such as Newton, emanated from investment managers and stockbrokers and created specialist divisions to cater for high net worth (HNW) clients, who, owing to their specialist needs, required a more bespoke and personal service.

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However, portfolios tended to be much less sophisticated than they are today, and long-only equities and fixed income were the order of the day. The wealth industry was much less transparent, and during this time most HNW investors were



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probably largely unaware of the mechanics of how their investments were managed; they relied almost entirely on the expertise of their investment managers. Although this can still be true today, information is much more readily available now, leading some clients to choose to be more closely involved in investment choices.

Even if the finer elements of portfolio management were not apparent to many investors, financial risk is a concept that most began to understand in one way or another. The oil shocks in the 1970s, Black Monday in the

1980s and the negative equity crisis in the nineties were key events that, among others, shaped investor perceptions of risk.

Changing requirements

The mantra of needing to take more risk to achieve higher returns was accepted wisdom and, as equities formed the lion's share of many portfolios, this was largely borne out by investment returns over time.

Since the turn of the century, however, many investment managers have recognised that they needed to change their client offering in light of changing investor requirements. Innovation has centred around developing solutions that focus on an investor's tolerance for risk as well as the potential for returns.

In the last 15 years or so, the economic boom has meant that a new type of HNW client has come into being – entrepreneurs, hedge fund managers, CEOs and others joined the ranks of those with inherited wealth needing specialist financial products and services.

This demand, along with an investment environment that has created a heightened awareness of risk, caused the industry that services HNW clients to evolve and it began to take the form that we know today.

Many investment banks and other larger financial firms formed separate subsidiaries to cater for the particular requirements of HNW clients. Many of these are forms of one-stop shops that offer entire

financial solutions, comprising banking, financial planning, tax and trusts.

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Alongside this, the industry as a whole has become much more sophisticated: products are being structured around new concepts such as absolute return; hedge funds are becoming mainstream; fine wines and art are now seen as credible

asset classes; and so on. Although many of these new assets have historically been out of the reach of most investors, private client asset managers and private banks could build cost-efficient products containing these assets for those that had investible assets on a scale that made them viable options.

More recent asset types, such as private equity, structured products or mortgage-backed securities, often did not appear in the public's consciousness until negative press coverage about them, although they were already gaining a presence in some HNW client portfolios.

More recently, the industry has consolidated considerably, with many boutique wealth management firms being bought by investment or retail banks. This created a distinct divide between the private bank or wealth manager arms of large financial corporations, and boutique firms that

placed increased importance and value on specialist investment or wealth services.

During this time, the profile of the typical HNW client has also changed considerably: asset managers can no longer rely on relationships being preserved through generations and must maintain their relevance to new audiences. As a consequence, and in this dynamic environment, the industry will continue to evolve, in structure, product innovation and strategic approach.

What's next?

The continuing credit crunch, house price falls and the considerable rise of food and oil prices have been a timely reminder to investors that good times never last forever. The elevated caution that is the natural consequence of both recent history and the bleak outlook that many pundits continue to endorse has meant greater demand for low-risk products.

The challenge here is that, as banks endeavour to improve liquid fund inflows by promoting savings rates of up to 6.5 per cent, risk-averse investors are likely to view these as a more attractive option to any type of riskier investment.

The effects of inflation on real returns, and the fact that short-term headline rates may not keep pace with future base rate changes mean that this option is not as attractive as it may seem.

Certainly risk is going to remain uppermost in investors' minds for some time to come and the challenge for the industry continues to be finding solutions that accord with the risk-averse nature of our clients.

Is the future boutique?

According to the 2008 Private Banking KPI Benchmark by Scorpio Partnership, the top two private banking firms have a market share that "places them in the top strata of global industry penetration, second only to names like Microsoft and Nokia". But perhaps size has its own pitfalls, particularly as the UK finan-



Clients are becoming more discerning in what they buy

cial industry has found itself in some high profile difficulties recently. Some larger organisations have been fraught with accusations of conflicts of interest, product pushing and lack of transparency.

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As investors seek to protect their assets from more than just market turmoil, certain asset managers – those that are not part of an investment bank or retail bank in particular – have been uniquely positioned to benefit from the fallout created by the reputation and financial issues currently plaguing other firms.

Although many HNW investors are reassured by the size of larger wealth management firms – or, for boutiques, by the scale of their parent – most also put service quality and a known relationship manager at the top of their requirements list.

High staff turnover has been an issue for many larger firms, fuelling client concerns about relationship continuity. It is certainly possible that, as is starting to happen in other industries, investors will move to smaller firms that are better able to provide relationship consistency over time, and which work harder to provide a more bespoke service.

Just as farmers' markets, for example, gain in popularity, so boutique wealth management firms are likely to benefit from a desire for a more personal and enduring approach.

Performance focus

During times of economic prosperity, when performance is all but assured, investment returns are often viewed as secondary and it can

be forgotten that high returns can be commensurate with high levels of risk. It is often only in difficult market conditions that performance becomes paramount. Mediocre returns from markets this decade may well lead the industry to reassess its own growth projections. Not least as HNW investors focus more on assessing if their investment manager has delivered value, the industry should expect downward pressure on fee structures.

In light of recent events, performance consistency will continue to be an important consideration for investors, who tend to prefer steady long-term growth rather than a portfolio that follows the market's ups - and downs - but which is therefore highly exposed to changes in market and economic conditions. Of course, change is constant and will continue to unnerve investors; the challenge is how to manage it successfully.

At Newton, our investment philosophy, which has been instrumental in the management of our clients' portfolios in varying market conditions, has been particularly successful in times of significant change.

The approach is founded upon the use of themes, which represent our ideas about the likely forces of change in the world.

Our global, thematic philosophy and process allow us to gain long-term perspective on global financial markets and economies, to anticipate how the world will change and to identify the beneficiaries of such change. Our themes evolve over time; old ones may cease to be relevant and new ones emerge as the investment backdrop changes. Because themes are about change, our process is much less likely to be caught out by change.

While many HNW investors have investment memories that recall previous bear markets and other economic events that affected investment returns, and they are in a better position, therefore, to put in context the current changes in finan-

cial markets and economies, a structured, proven and demonstrable approach such as this can be immensely reassuring. ■

About Newton Private Investment Management

Newton has a single aim: to increase the real wealth of all of its clients. The company's sole business is discretionary investment management, which means its focus is to deliver investment performance. Newton was a pioneer of thematic investing and this has been fundamental in achieving consistently strong performance in both rising and falling markets.

It is not an approach that can be achieved by individuals. The collegiate culture at Newton encourages individual thinking and this ideas-based approach is crucial in identifying the companies that offer the very best prospects for growth.

Founded in 1978, Newton currently manages assets on behalf of private investors, charities, trusts, pension funds and institutions.

Newton is part of BNY Mellon Asset Management, which incorporates a number of specialist asset managers that each have autonomous investment processes and philosophies. This unique model enables Newton to focus entirely on managing investments and providing investment excellence. BNY Mellon Asset Management is the asset management arm of The Bank of New York Mellon.

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