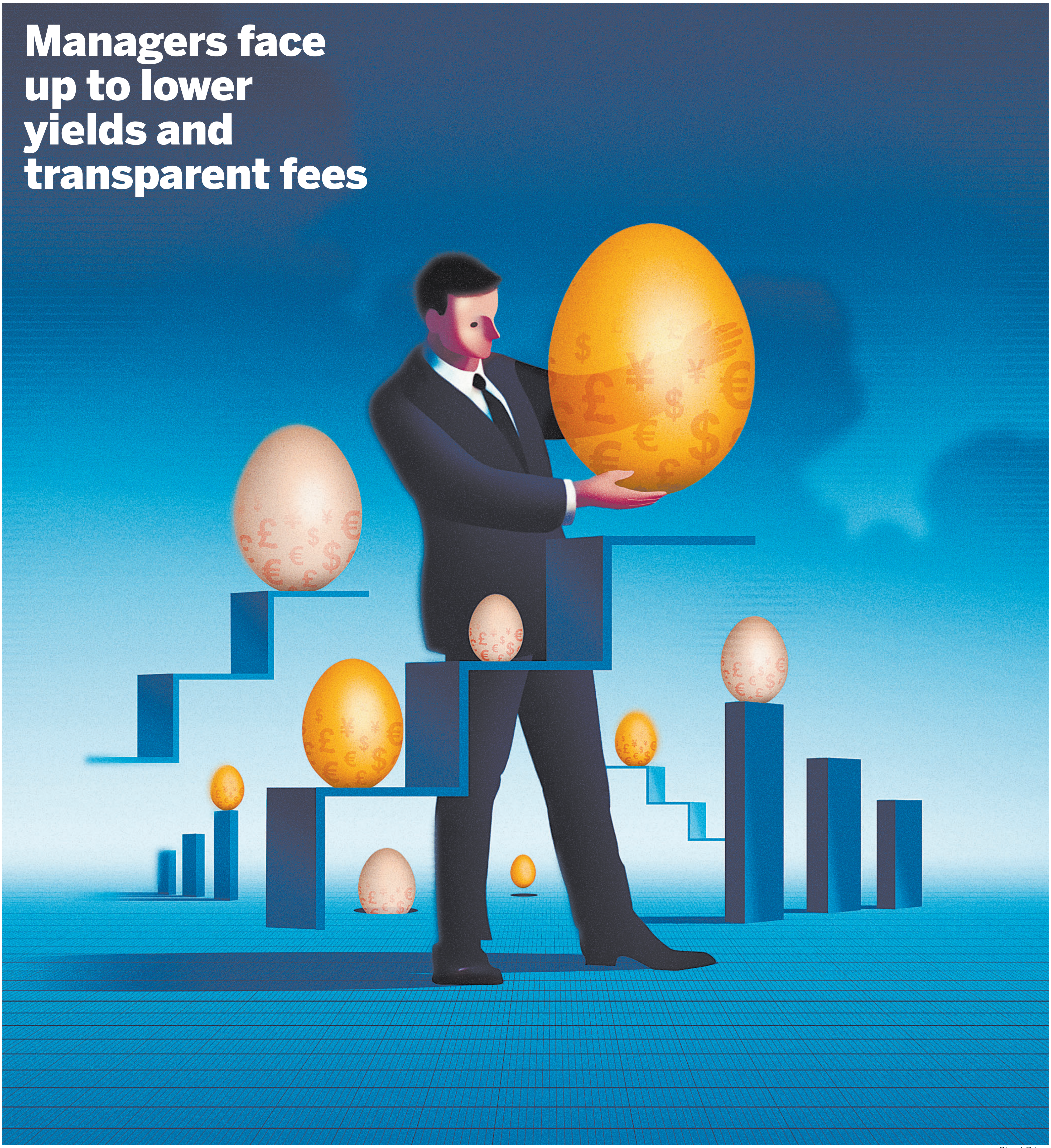
Private Client Wealth Management

An FT Money Guide

Managers face up to lower yields and transparent fees



Stuart Briers

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‘Risk assets vital to preserve wealth’

Equities

Holdings of shares remain high in a climate of financial repression, says **Matthew Vincent**

A need for “wealth preservation”, amid a climate of “financial repression”, is the main reason why portfolio managers still have more than half of their clients’ funds in equities, according to firms taking part in this year’s Financial Times wealth management survey. But some believe this approach is too “cavalier” while markets are volatile.

UK and international shares make up 56 per cent of the average “balanced” portfolio, and 71 per cent of the average “capital growth” portfolio – just a percentage point less than the levels reported last year, in spite of a 9.2 per cent fall in the FTSE World Index in the past 12 months.

But wealth managers argue that only “risk assets”, such as equities, have potential to preserve the value of their clients’ portfolios in real terms.

“In the current environment, wealth preservation is a primary objective for investors,” explains Alan Higgins, UK chief investment officer for Coutts. “However, with high-quality government bonds offering record low yields, in some cases below the current and forecast rates of inflation, investors need to look to higher risk assets if they wish to protect their long-term purchasing power.”

Chris Hills, chief investment officer at Investec Wealth & Investment, argues that equities offer one of the few ways to counter western governments’ economic policy.

“In the hunt for returns that are better than cash, governments are tilting the playing field towards themselves,” he says. “Financial repression, under which the authorities set interest rates at a level well below inflation, represents a tax on savers and a transfer of benefits from lenders to borrowers.”

In these conditions, opportunities to achieve a capital gain and a rising income have to be taken, Hills concludes. “Equity markets now offer very good value, with yields around 4 per cent from quality blue-chip companies in the UK. These companies now stand on ratings that are comparable to 1976 and 1981.

“On both occasions, the economic prognosis appeared bleak, but equities subsequently demonstrated very attractive returns, more than doubling in the following five years, with reinvested dividends.”

Equities are also the only way to meet many client needs, he suggests. “Investors who need a rising income stream, for example to pay school fees, will not find the solution in either bonds or hedge funds, so may need to be brave when others are clearly fearful – to quote Warren Buffett – and buy some equities.”

Bravery comes more easily to portfolio managers when valuations appear cheap, suggests Higgins. “When allocating to equities, it’s important to take into account absolute valuations across regions. US equities look the most expensive, while the UK, Asia and emerging markets look cheap relative to historical levels.”

Charles MacKinnon, partner at Thurleigh Investment Managers, has an allocation to equities that ranges between 15 and 65 per cent, but takes advantage of markets falls to increase portfolio holdings.

However, any higher allocation will expose clients to unacceptable levels of volatility, warns Tom Becket, chief investment officer of PSigma Investment Management. “We struggle to see how anything higher than 50 per cent in equities can constitute a balanced portfolio,” he says – pointing out that high-yield corporate bonds, commodities and emerging market debt can have equity-like characteristics.

In this year’s FT survey, the highest equity allocation in a “balanced” portfolio is 88 per cent – held by Charles Stanley. But Edward Smith, global strategist at Collins Stewart Wealth Management says this is excessive. “A manager that holds 88 per cent in equities for a client whose risk profile is anything less than aggressive can only be described as cavalier,” he argues. “Managing volatility is more important now than ever, as correlations between asset classes are rising.”

However, other asset classes can still offer a degree of protection, according to many managers.

“We think the outlook for some alternative assets is more constructive, and potentially less volatile, than for equities,” says Willem Sels, UK head of investment strategy at HSBC Private Bank. “Although hedge funds have generally underperformed bonds, they have outperformed equity markets quite considerably. Investors will be looking for assets with a low correlation in case equity markets do not perform well; we think this should help the case for hedge funds.”

Even so, he adds that the bank’s relatively low weighting to equities at present is “tactical” and he expects to increase it when the global outlook becomes clearer.

Paul Taylor, managing director of McCarthy Taylor, is also adopting a short-term approach towards equity investments – albeit from a higher starting point. “We hold around 63 per cent in equities against a target 78 per cent, reflecting reluctance to buy the whole market and client tendency towards caution.”

Short-term caution can only be tempered if a client is willing to remain invested for many years, says Jane Sydenham, investment director at Rathbone Investment Management. “Managers with very nervous clients who cannot withstand volatility, or those who may need to release cash over a shorter time period, inevitably need more stability so will have a much smaller equity allocation,” she says.

Communication between clients and portfolio managers is therefore essential. “What is of importance is how individual private banks interpret the word ‘balanced’ for a particular mandate,” says Peter Botham, chief investment officer at Brown Shipley. “It is vital a client understands their attitude to risk.” Smith agrees. “A good portfolio management service should involve a dialogue: if a client has an unrealistic expectation for return, inconsistent with his risk profile we have a duty to either re-educate the client.”

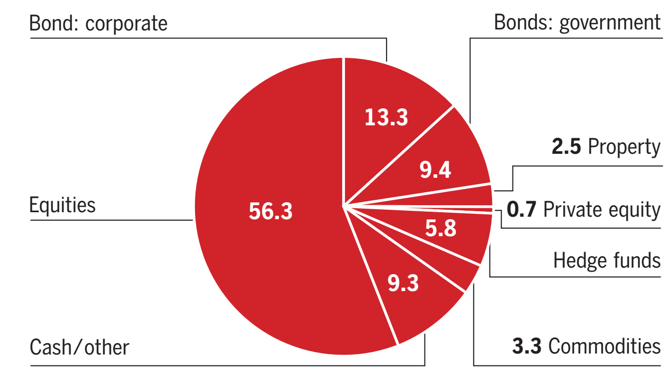
Performance

Wealth manager	Average % performance of balanced portfolios invested on behalf of UK private clients (cumulative, not annualised) to end 2011			Average % performance of capital growth portfolios invested on behalf of UK private clients (cumulative, not annualised) to end 2011		
	Over 1 year	Over 3 years	Over 5 years	Over 1 year	Over 3 years	Over 5 years
Adam & Company	-0.38	38.14	14.81	-1.59	45.57	14.04
Ashcourt Rowan PLC	-5.80	N/A	N/A	-8.70	N/A	N/A
Barclays, Wealth and Investment Management	-2.09	32.23	12.57	-4.70	31.27	5.99
Berry Asset Management PLC	-2.10	26.40	6.60	N/A	N/A	N/A
Bestinvest	-2.79	29.39	6.35	-4.74	29.82	9.46
Brooks Macdonald Asset Management	-2.40	25.00	8.70	-4.40	27.20	7.00
Cazenove Capital Management	-0.20	28.13	15.23	-0.73	34.13	11.61
Charles Stanley Group PLC	0.00	39.00	26.00	N/A	N/A	N/A
Cheviot Asset Management	-3.56	35.60	20.02	-5.41	35.00	13.41
C. Hoare & Co.	-1.30	28.50	8.50	-4.10	33.70	3.80
City Asset Management PLC	-4.50	16.78	N/A	-8.77	35.74	N/A
Close Brothers Asset Management	0.91	34.83	N/A	-0.66	36.90	N/A
Collins Stewart Wealth Management	-1.06	25.80	14.86	-4.60	30.52	7.97
Coutts	-3.80	16.90	13.30	N/A	N/A	N/A
Deutsche Bank Private Wealth Management	-4.28	29.96	N/A	-6.81	32.08	N/A
Duncan Lawrie Private Bank	-2.40	28.40	N/A	-3.60	31.60	N/A
Equilibrium Asset Management LLP	-3.99	23.27	8.82*	-1.16	8.04**	N/A
GHC Capital Markets Ltd	-5.96	30.85	N/A	-5.39	40.99	N/A
Greystone Financial Services	-5.92	28.21	4.41	-8.90	36.68	24.50
Heartwood	-3.70	27.80	16.10	-7.90	32.50	N/A
HSBC Bank	-0.99	29.37	15.39	-5.70	26.89	6.87
Investec Wealth and Investment	-1.86	18.86	1.40	N/A	N/A	N/A
Investment Quorum Ltd	-7.16	29.05	N/A	-9.43	33.73	N/A
James Brearley & Sons ***	-4.59	23.20	-0.22	-5.42	33.02	4.78
J O Hambro Investment Management	-3.62	25.10	17.36	-4.18	31.16	14.20
Jupiter Private Clients & Charities	-3.66	29.10	N/A	-5.46	30.50	N/A
McInroy & Wood Ltd	-1.70	37.00	29.50	-2.40	41.20	44.00
Newton Investment Management Ltd	-4.53	29.62	10.84	-6.96	27.73	12.10
Pictet	0.71	23.00	30.10	-0.59	27.30	21.60
Principal Investment Management Ltd	-4.73	23.34	0.88	-6.20	21.86	-5.91
PSigma Investment Management	-2.24	22.03	15.32	-2.55	26.32	14.15
Rathbone Investment Management ***	0.56	34.51	20.71	3.49	36.82	19.81
RBC Wealth Management	-3.10	21.50	24.90	-4.60	26.10	21.80
RMG Wealth Management	3.50	N/A	N/A	N/A	N/A	N/A
Rothschild Wealth Management	-2.50	23.50	18.90	-7.10	28.90	14.90
Ruffer LLP	1.30	31.80	56.10	N/A	N/A	N/A
Seven Investment Management	-5.06	21.13	12.26	-8.43	23.54	7.30
Smith & Williamson	-0.69	36.96	27.80	-2.32	37.71	27.12
Société Générale Private Banking Hambros	-2.79	30.91	29.94	-4.84	25.27	8.19
Stonehage Group	1.00	19.00	N/A	N/A	N/A	N/A
Taylor Young Investment Management Ltd	-3.10	36.00	6.30	-10.60	64.40	7.20
Thurleigh Investment Managers	-2.70	17.80	8.20	-5.40	20.10	1.70
Towry	-6.70	22.20	9.00	-7.40	25.80	15.50
Veritas Asset Management	0.30	27.90	35.60	-1.50	34.50	36.80
Vestra Wealth	-3.32	32.60	N/A	-4.02	39.61	N/A
W H Ireland Ltd	0.20	33.40	16.60	-2.30	32.70	10.90
Williams de Broë	-1.89	33.51	20.97	-5.98	34.57	19.33
Average	-2.44	27.95	16.23	-4.60	32.09	13.80
Best	3.50	39.00	56.10	3.49	64.40	44.00
Worst	-7.16	16.78	-0.22	-10.60	8.04	-5.91

Notes
N/A=Not applicable * Since launch 4 years ago ** Since launch in September 2009 ***Performance based on model portfolios before fees. Brewin Dolphin, EFG Harris Allday, Killik & Co, RadcliffesLeBrasseur and Redmayne-Bentley stated that figures were not applicable or available. Brown Shipley, HSBC Private Bank, JP Morgan Private Bank, Lloyds TSB Private Banking, Quilter and UBS Wealth Management and Walker Crips did not disclose figures

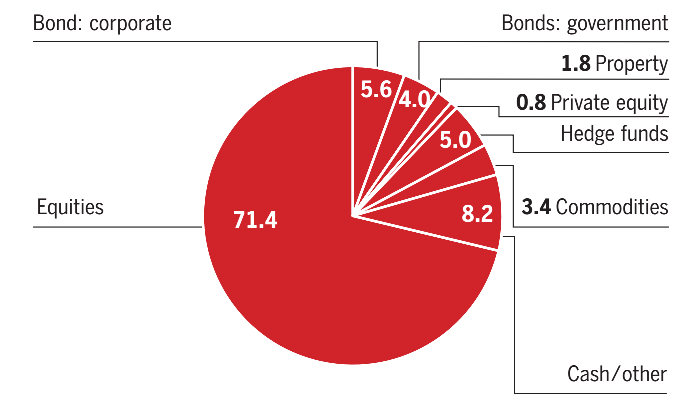
Money Guide: Private Client Wealth Management

Average balanced portfolios
Per cent



Source: FT/Ledbury Research

Capital growth portfolios
Per cent



Source: FT/Ledbury Research

Asset allocations

Wealth managers’ use of equities in client portfolios has remained almost unchanged in the past 12 months, writes **Matthew Vincent**.

“Balanced” portfolios have an average equity allocation of 56.25 per cent today, compared with 57.84 per cent this time last year. “Capital growth” portfolios – which hold more “risk” assets in pursuit of longer-term returns – have 71.44 per cent in equities, on average, against 72.53 per cent a year ago.

Bond holdings – both government and corporate issues – also appear similar year-on-year, in spite of a strong rise in the prices of “safer” US Treasuries and UK gilts. McCarthy Taylor reports “an overweight position . . . reflecting the gains we have made in gilts bought some time ago and corporate bonds” – but the average weighting in balanced portfolio is not much higher than last year: 9.39 per cent today, up from 8.49 per cent.

Hedge funds and cash are the only holdings to have undergone a significant rebalancing.

Last year, portfolio managers entrusted 9.14 per cent of their balanced portfolios to hedge fund managers. Today, that has fallen to 5.82 per cent.

Thurleigh says it has almost exited these investments. Some of the proceeds have gone into cash, which accounts for much of the 9.3 per cent in “other” assets, up from 6.5 per cent last year.

Investment approach

Current asset allocation of average balanced portfolio invested on behalf of UK private clients

Wealth manager	Equities (%)	Bond: corporate (%)	Bonds: government (%)	Property (%)	Private equity (%)	Hedge funds (%)	Commodities (%)	Cash/ other (%)
Adam & Company	75.00	10.00	8.00	5.00	0.00	0.00	0.00	2.00
Ashcourt Rowan PLC	67.00	9.00	6.00	3.00	0.00	0.00	0.00	15.00
Barclays Wealth and Investment Management	48.00	12.00	9.00	4.00	14.00		5.00	8.00
Berry Asset Management PLC	60.00	8.00	15.00	5.00	0.00	0.00	6.00	6.00
Bestinvest	41.50	32.20	0.00	8.00	0.00	11.50	3.30	3.50
Brewin Dolphin	71.50	15.00	3.00	0.00	5.50	0.00	0.00	5.00
Brooks Macdonald Asset Management	41.00	19.00	5.00	6.00	0.00	7.00	3.00	19.00
Brown Shipley	56.00	7.00	14.00	4.00	0.00	6.00	3.00	10.00
Cazenove Capital Management	45.50	17.50	15.00	0.00	0.00	11.90	0.00	10.10
Charles Stanley Group PLC	88.00	6.00	4.00	0.00	0.00	0.00	2.00	0.00
Cheviot Asset Management	72.50	9.50	2.00	0.00	0.00	5.00	0.00	11.00
C. Hoare & Co.	53.00	18.00	13.00	0.00	0.00	12.00	3.00	1.00
City Asset Management PLC	57.50	17.50		0.00	0.00	0.00	8.00	17.00
Close Brothers Asset Management	60.00	12.00	12.00	1.00	0.00	2.00	6.00	7.00
Collins Stewart Wealth Management	61.00	9.50	10.50	0.00	0.00	0.00	5.00	14.00
Coutts	39.00	15.00	24.00	3.00	0.00	9.00	6.00	4.00
Deutsche Bank Private Wealth Management	50.50	22.00	15.50	0.00	0.00	3.00	5.00	4.00
Duncan Lawrie Private Bank	62.00	28.00	0.00	0.00	0.00	0.00	0.00	10.00
Equilibrium Asset Management LLP	55.00	20.00	0.00	10.00	0.00	0.00	0.00	15.00
GHC Capital Markets Ltd	50.00	5.00	15.00	10.00	0.00	0.00	10.00	10.00
Greystone Financial Services	79.00	17.00	0.00	0.00	0.00	0.00	0.00	4.00
Heartwood	54.20	8.00	12.70	7.20	0.00	5.10	0.00	12.80
HSBC Bank	48.00	11.00	16.00	4.00	3.00	2.00	5.00	11.00
HSBC Private Bank UK Ltd	35.00	11.90	20.00	5.00	4.00	14.00	4.00	6.10
Investec Wealth and Investment	65.50	7.50	9.00	2.50	2.00	5.00	2.00	6.50
Investment Quorum Ltd	62.00	22.00	0.00	0.00	0.00	7.00	7.00	2.00
James Brearley & Sons	76.50	17.50	0.00	2.50	0.00	0.00	0.00	3.50
J O Hambro Investment Management	68.00	8.20	8.80	0.00	0.00	5.00	5.00	5.00
JP Morgan Private Bank	33.00	4.00	6.00	3.00	5.00	22.00	4.00	23.00
Jupiter Private Clients & Charities	68.39	9.27	7.66	0.00	0.00	3.45	5.06	6.17
Killik & Co	74.00	12.00	0.00	0.00	0.00	8.00	3.00	3.00
McInroy & Wood Ltd	70.00	0.00	30.00	0.00	0.00	0.00	0.00	0.00
Newton Investment Management Ltd	54.90	14.01	17.45	1.71	0.00	0.00	1.38	10.56
Pictet	30.00	23.00	0.00	0.00	0.00	15.00	7.00	25.00
Principal Investment Management Ltd	65.00	18.00	7.00	0.00	0.00	10.00	0.00	10.00
PSigma Investment Management	47.50	15.00	7.50	0.00	0.00	0.00	7.50	22.50
Quilter	69.50	0.00	17.00	2.50	0.00	6.50	0.00	4.50
Rathbone Investment Management	67.00	3.00	11.00	2.00	0.00	13.00	0.00	4.00
RBC Wealth Management	32.70	8.90	20.00	0.00	0.00	17.50	0.00	20.90
Redmayne-Bentley	75.00	11.00	5.00	0.00	0.00	0.00	5.00	4.00
RMG Wealth Management	25.00	0.00	20.00	0.00	0.00	17.00	8.00	30.00
Rothschild Wealth Management	50.00	11.00	5.00	4.00	0.00	12.00	8.00	10.00
Ruffer LLP	51.00	0.00	31.00	0.00	0.00	1.00	5.00	12.00
Seven Investment Management	42.10	21.90	13.90	2.00	0.80	3.30	3.00	13.00
Smith & Williamson	68.00	8.00	12.00	3.00	0.00	4.00	0.00	5.00
Société Générale Private Banking Hambros	50.00	25.00	10.00	2.00	0.00	0.00	7.00	6.00
Stonehage Group	25.00	22.00	3.00	5.00	5.00	30.00	10.00	0.00
Taylor Young Investment Management Ltd	75.80	0.00	5.90	7.20	0.00	0.00	0.00	11.10
Thurleigh Investment Managers	21.00	57.00	0.00	2.00	0.00	15.00	2.00	3.00
Towry	54.20	4.40	4.30	11.70	0.00	0.00	2.50	22.90
Veritas Asset Management	65.00	28.00	0.00	0.00	0.00	0.00	0.00	7.00
Vestra Wealth	66.20	2.50	10.00	0.00	0.00	5.00	3.00	13.30
Walker Crips Group	50.00	15.00	10.00	5.00	0.00	5.00	5.00	10.00
W H Ireland Ltd	62.50	10.00	5.00	2.50	0.00	10.00	5.00	5.00
Williams de Broë	59.00	15.00	11.00	3.00	0.00	3.00	2.00	7.00
Average	56.25	13.33	9.39	2.49	0.71	5.82	3.30	9.30
Max	88.00	57.00	31.00	11.70	14.00	30.00	10.00	30.00
Min	21.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Current asset allocation of average capital growth portfolio invested on behalf of UK private clients

Wealth manager	Equities (%)	Bond: corporate (%)	Bonds: government (%)	Property (%)	Private equity (%)	Hedge funds (%)	Commodities (%)	Cash/other (%)
Adam & Company	93.00	0.00	0.00	5.00	0.00	0.00	0.00	2.00
Ashcourt Rowan PLC	86.00	0.00	0.00	0.00	0.00	0.00	0.00	14.00
Barclays Wealth and Investment Management	68.00	8.00	4.00	2.00	8.00		6.00	4.00
Berry Asset Management PLC	77.00	4.00	8.00	5.00	0.00	0.00	5.00	1.00
Bestinvest	61.00	20.00	0.00	3.50	0.00	9.00	3.50	3.00
Brewin Dolphin	84.00	3.00	4.00	0.00	4.00	0.00	0.00	5.00
Brooks Macdonald Asset Management	60.00	12.00	3.00	4.00	0.00	6.00	3.00	12.00
Brown Shipley	72.00	4.00	5.00	0.00	0.00	6.00	7.00	6.00
Cazenove Capital Management	65.50	7.50	10.00	0.00	0.00	7.90	0.00	9.10
Charles Stanley Group PLC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cheviot Asset Management	90.00	0.00	0.00	0.00	0.00	7.50	0.00	2.50
C. Hoare & Co.	79.00	4.00	0.00	0.00	0.00	12.00	4.00	1.00
City Asset Management PLC	71.00	10.00		0.00	0.00	0.00	9.00	10*
Close Brothers Asset Management	70.00	8.00	7.00	1.00	0.00	2.00	8.00	4.00
Collins Stewart Wealth Management	72.00	2.50	7.00	0.00	0.00	0.00	5.00	13.50
Coutts	61.00	8.00	8.00	2.00	8.00	0.00	7.00	6.00
Deutsche Bank Private Wealth Management	67.50	10.50	10.00	0.00	0.00	3.00	5.00	4.00
Duncan Lawrie Private Bank	76.00	14.00	0.00	0.00	0.00	0.00	0.00	10.00
Equilibrium Asset Management LLP	80.00	10.00	0.00	2.00	0.00	0.00	0.00	8.00
GHC Capital Markets Ltd	70.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Greystone Financial Services	98.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00
Heartwood	80.50	3.10	0.00	7.30	0.00	0.00	0.00	9.10
HSBC Bank	70.00	5.00	8.00	4.00	4.00	0.00	4.00	5.00
HSBC Private Bank UK Ltd	47.00	9.00	7.00	5.00	5.00	16.00	5.00	6.00
Investec Wealth and Investment	73.00	4.40	5.40	2.50	2.00	6.00	2.00	4.70
Investment Quorum Ltd	74.00	4.00	0.00	0.00	0.00	8.00	12.00	2.00
James Brearley & Sons	87.50	12.00	0.00	0.00	0.00	0.00	0.00	0.50
J O Hambro Investment Management	80.00	3.40	3.60	0.00	0.00	5.00	5.00	3.00
JP Morgan Private Bank	47.00	0.00	3.00	4.00	6.00	21.00	5.00	14.00
Jupiter Private Clients & Charities	82.39	6.28	0.00	0.00	0.00	0.00	5.15	6.18
Killik & Co	84.00	0.00	3.00	0.00	0.00	9.00	4.00	0.00
McInroy & Wood Ltd	70.00	0.00	30.00	0.00	0.00	0.00	0.00	0.00
Newton Investment Management Ltd	67.22	10.59	10.22	0.00	0.00	4.12	1.95	5.90
Pictet	51.00	3.00	0.00	0.00	0.00	10.00	7.00	30.00
Principal Investment Management Ltd	75.00	7.00	3.00	0.00	0.00	8.00	0.00	7.00
PSigma Investment Management	62.50	10.00	0.00	0.00	0.00	0.00	7.50	20.00
Quilter	82.60	0.00	6.50	2.50	0.00	6.40	0.00	2.00
Rathbone Investment Management	84.00	3.00	3.00	0.00	0.00	10.00	0.00	0.00
RBC Wealth Management	52.60	5.30	11.40	0.00	0.00	10.60	0.00	20.10
Redmayne-Bentley	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
RMG Wealth Management	25.00	0.00	20.00	0.00	0.00	17.00	8.00	30.00
Rothschild Wealth Management	63.00	0.00	0.00	4.00	0.00	14.00	8.00	11.00
Ruffer LLP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Seven Investment Management	61.90	10.90	7.00	1.80	1.60	2.80	3.00	11.00
Smith & Williamson	77.00	5.00	5.00	3.00	0.00	4.00	0.00	6.00
Société Générale Private Banking Hambros	75.00	3.50	0.00	0.00	0.00	7.00	6.00	8.50
Stonehage Group	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Taylor Young Investment Management Ltd	79.40	0.00	0.00	3.40	0.00	0.00	0.00	17.20
Thurleigh Investment Managers	43.00	37.00	0.00	2.00	0.00	12.00	3.00	3.00
Towry	60.50	2.30	2.30	8.90	0.00	0.00	2.40	23.6**
Veritas Asset Management	90.00	0.00	0.00	0.00	0.00	0.00	0.00	10.00
Vestra Wealth	76.30	0.00	0.00	0.00	0.00	7.50	2.50	13.70
Walker Crips Group	70.00	6.00	4.00	4.00	0.00	4.00	4.00	8.00
W H Ireland Ltd	75.00	2.50	0.00	2.50	0.00	10.00	5.00	5.00
Williams de Broë	76.00	7.00	2.00	4.00	0.00	0.00	2.00	9.00
Average	71.44	5.60	4.01	1.83	0.76	4.98	3.43	8.21
Max	98.00	37.00	30.00	10.00	8.00	21.00	12.00	30.00
Min	25.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Notes: Figures as of May 2012. * Includes private equity and hedge funds. ** Includes non-traditional strategies such as long/short funds, via use of regulated UCITS vehicles, EFG Harris Allday. Lloyds TSB Private Banking, RadcliffesLeBrasseur, and UBS Wealth Management did not disclose asset allocations. N/A=Not applicable

Portf balancing act as inflation threat rises

Real returns

Financial advisers fear investors are too focused on short-term safety, writes Lucy Warwick-Ching

Wealth management firms have been forced to reduce their holdings of low-yielding bonds, cash and "alternative" asset classes to protect client portfolios from inflation – relying instead on increasingly turbulent equity holdings in an effort to secure a "real return".

Discretionary portfolio managers say they are finding themselves in the difficult position of trying to generate real returns to keep portfolio values ahead of inflation, but without opening up clients to added risk. Traditional income-generating assets, such as short-dated government bonds, are currently providing record low yields – as evidenced by two-year German government Bunds now yielding zero per cent.

However, advisers also fear that some clients are becoming too focused on short-term safety in the midst of the eurozone debt crisis – and will end up facing losses if they continue to follow a so-called "low-risk" strategy.

"In the current environment, when real assets are proving particularly volatile, clients are primarily focused on capital preservation," admits Patrick Connolly at AWD Chase de Vere. "But this could create problems for them as the rate of inflation is greater than the rates available on cash savings accounts."

Chris Kenny, investment director at Smith & Williamson, agrees. "It's difficult to find safe havens for investors' money – but too much reliance on cash and bonds may prove a much higher risk than investing in equities of solid blue-chip companies. The greatest risk for individuals is the possibility of having investment portfolios eroded by inflation."

With the Bank of England base rate held at a historic low of 0.5 per cent for more than three years, investors have flocked to equity income funds as well as specialist funds focused on infrastructure or private equity. These can yield more than 5 per cent a year – but, even then, the effect of inflation, charges and tax can make the net return negative.

In the current environment, there are also the risks posed by volatility in global equity markets.

But wealth managers argue that they have a wider array of investment tools at their disposal than in the past, giving them more options to grow and protect clients' assets.

Some have been addressing the inflation threat directly, by buying into inflation-linked products. "Our starting point for investors concerned about inflation is index-linked [corporate] bonds and index-linked gilts issued by the UK and other places," says Kenny. "But the problem at the moment is that increased demand for these bonds means yields have been pushed down."

Alan Higgins, chief investment officer UK at Coutts, recommends a balanced portfolio, mixing government bonds with higher-risk assets as the best way to deliver real returns. "Investors need to look beyond government bonds for ways to protect their capital and for long-term purchasing power," he says.

"One asset class we favour is high-quality corporate bonds. Their yield spreads over government bonds and strong company balance sheets suggest that, if default rates were to reach the worst levels seen over the last 40 years, corporate bonds would still look attractive in absolute terms – and are likely to outperform comparable government bonds at maturity."

Others are looking to higher-risk corporate bonds that are offering yields of 7 per cent or more over the next 12 months. "US high-yield bonds are paying 7.55 per cent, and euro high-yield bonds at 9.45 per cent," notes Willem Sels, UK head of investment strategy at HSBC Private Bank.

"If the eurozone's worst scenario can be avoided, we believe this is a good entry point and credit spreads would tighten in coming months, leading to price gains."

He prefers to hold bonds issued by well-established businesses and recommends a buy-and-hold strategy over directional trading. But for anyone who is willing to take some short-term trading risk, he suggests that two-year Italian bonds could return close to 7 per cent in the coming year – through a combination of spread tightening and yield income. But portfolios cannot rely on bonds alone, Sels accepts. "If one wants to achieve consistent returns of 7 per cent or more in the long term, however, some exposure to equities, currencies or structured products is required," he says. "Equities are traditionally a good inflation hedge, and are currently trading at a very low price to earnings ratio, which should give us a good entry point for the long term."

He also likes to use structured products as a way to enhance yields while adding protection to a portfolio.

Jeremy Hervey, at Cazenove Capital Management says he has done a lot of inflation-proofing of clients' investments in the past few months.

"We tend to use a lot of specialist insurance funds, and infrastructure funds to protect people's portfolios and we will also use some hedge funds," he explains. "We have some exposure to gold, but only in a modest way."

> 'Investors need to look beyond government bonds for ways to protect their capital'

Others have used the current market conditions as an opportunity to encourage clients to discuss the trade-offs between risk and return. Tracy Maeter, head of investments at RBC Wealth Management, says: "These conversations highlight that often what investors are actually seeking is relative stability and capital preservation for their overall wealth profile.

"This can involve combining investments which may not each have extremely low absolute volatility, but in combination provide a more balanced and less volatile comprehensive wealth position."

She says that an important point to remember is that volatility is not the only form, or measure, of risk. "If investors are keen to pursue returns while also trying to achieve low volatility, more often than not the outcome simply shifts the risk to another area – such as leverage, lack of liquidity, or lack of transparency," Maeter warns.

Europe's debt crisis makes it hard to escape inflation Reuters

Investment approach

Wealth manager	Current asset allocation of average balanced portfolio invested on behalf of UK private clients								Current asset allocation of average capital growth portfolio invested on behalf of UK private clients							
	Equities (%)	Bond: corporate (%)	Bonds: government (%)	Property (%)	Private equity (%)	Hedge funds (%)	Commodities (%)	Cash/other (%)	Equities (%)	Bond: corporate (%)	Bonds: government (%)	Property (%)	Private equity (%)	Hedge funds (%)	Commodities (%)	Cash/other (%)
Adam & Company	75.00	10.00	8.00	5.00	0.00	0.00	0.00	2.00	93.00	0.00	0.00	5.00	0.00	0.00	0.00	2.00
Ashcourt Rowan PLC	67.00	9.00	6.00	3.00	0.00	0.00	0.00	15.00	86.00	0.00	0.00	0.00	0.00	0.00	0.00	14.00
Barclays Wealth and Investment Management	48.00	12.00	9.00	4.00	14.00		5.00	8.00	68.00	8.00	4.00	2.00	8.00		6.00	4.00
Berry Asset Management PLC	60.00	8.00	15.00	5.00	0.00	0.00	6.00	6.00	77.00	4.00	8.00	5.00	0.00	0.00	5.00	1.00
Bestinvest	41.50	32.20	0.00	8.00	0.00	11.50	3.30	3.50	61.00	20.00	0.00	3.50	0.00	9.00	3.50	3.00
Brewin Dolphin	71.50	15.00	3.00	0.00	5.50	0.00	0.00	5.00	84.00	3.00	4.00	0.00	4.00	0.00	0.00	5.00
Brooks Macdonald Asset Management	41.00	19.00	5.00	6.00	0.00	7.00	3.00	19.00	60.00	12.00	3.00	4.00	0.00	6.00	3.00	12.00
Brown Shipley	56.00	7.00	14.00	4.00	0.00	6.00	3.00	10.00	72.00	4.00	5.00	0.00	0.00	6.00	7.00	6.00
Cazenove Capital Management	45.50	17.50	15.00	0.00	0.00	11.90	0.00	10.10	65.50	7.50	10.00	0.00	0.00	7.90	0.00	9.10
Charles Stanley Group PLC	88.00	6.00	4.00	0.00	0.00	0.00	2.00	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cheviot Asset Management	72.50	9.50	2.00	0.00	0.00	5.00	0.00	11.00	90.00	0.00	0.00	0.00	0.00	7.50	0.00	2.50
C. Hoare & Co.	53.00	18.00	13.00	0.00	0.00	12.00	3.00	1.00	79.00	4.00	0.00	0.00	0.00	12.00	4.00	1.00
City Asset Management PLC	57.50	17.50		0.00	0.00	0.00	8.00	17.00	71.00	10.00		0.00	0.00	0.00	9.00	10*
Close Brothers Asset Management	60.00	12.00	12.00	1.00	0.00	2.00	6.00	7.00	70.00	8.00	7.00	1.00	0.00	2.00	8.00	4.00
Collins Stewart Wealth Management	61.00	9.50	10.50	0.00	0.00	0.00	5.00	14.00	72.00	2.50	7.00	0.00	0.00	0.00	5.00	13.50
Coutts	39.00	15.00	24.00	3.00	0.00	9.00	6.00	4.00	61.00	8.00	8.00	2.00	8.00	0.00	7.00	6.00
Deutsche Bank Private Wealth Management	50.50	22.00	15.50	0.00	0.00	3.00	5.00	4.00	67.50	10.50	10.00	0.00	0.00	3.00	5.00	4.00
Duncan Lawrie Private Bank	62.00	28.00	0.00	0.00	0.00	0.00	0.00	10.00	76.00	14.00	0.00	0.00	0.00	0.00	0.00	10.00
Equilibrium Asset Management LLP	55.00	20.00	0.00	10.00	0.00	0.00	0.00	15.00	80.00	10.00	0.00	2.00	0.00	0.00	0.00	8.00
GHC Capital Markets Ltd	50.00	5.00	15.00	10.00	0.00	0.00	10.00	10.00	70.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Greystone Financial Services	79.00	17.00	0.00	0.00	0.00	0.00	0.00	4.00	98.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00
Heartwood	54.20	8.00	12.70	7.20	0.00	5.10	0.00	12.80	80.50	3.10	0.00	7.30	0.00	0.00	0.00	9.10
HSBC Bank	48.00	11.00	16.00	4.00	3.00	2.00	5.00	11.00	70.00	5.00	8.00	4.00	4.00	0.00	4.00	5.00
HSBC Private Bank UK Ltd	35.00	11.90	20.00	5.00	4.00	14.00	4.00	6.10	47.00	9.00	7.00	5.00	5.00	16.00	5.00	6.00
Investec Wealth and Investment	65.50	7.50	9.00	2.50	2.00	5.00	2.00	6.50	73.00	4.40	5.40	2.50	2.00	6.00	2.00	4.70
Investment Quorum Ltd	62.00	22.00	0.00	0.00	0.00	7.00	7.00	2.00	74.00	4.00	0.00	0.00	0.00	8.00	12.00	2.00
James Brearley & Sons	76.50	17.50	0.00	2.50	0.00	0.00	0.00	3.50	87.50	12.00	0.00	0.00	0.00	0.00	0.00	0.50
J O Hambro Investment Management	68.00	8.20	8.80	0.00	0.00	5.00	5.00	5.00	80.00	3.40	3.60	0.00	0.00	5.00	5.00	3.00
JP Morgan Private Bank	33.00	4.00	6.00	3.00	5.00	22.00	4.00	23.00	47.00	0.00	3.00	4.00	6.00	21.00	5.00	14.00
Jupiter Private Clients & Charities	68.39	9.27	7.66	0.00	0.00	3.45	5.06	6.17	82.39	6.28	0.00	0.00	0.00	0.00	5.15	6.18
Killik & Co	74.00	12.00	0.00	0.00	0.00	8.00	3.00	3.00	84.00	0.00	3.00	0.00	0.00	9.00	4.00	0.00
McInroy & Wood Ltd	70.00	0.00	30.00	0.00	0.00	0.00	0.00	0.00	70.00	0.00	30.00	0.00	0.00	0.00	0.00	0.00
Newton Investment Management Ltd	54.90	14.01	17.45	1.71	0.00	0.00	1.38	10.56	67.22	10.59	10.22	0.00	0.00	4.12	1.95	5.90
Pictet	30.00	23.00	0.00	0.00	0.00	15.00	7.00	25.00	51.00	3.00	0.00	0.00	0.00	10.00	7.00	30.00
Principal Investment Management Ltd	65.00	18.00	7.00	0.00	0.00	10.00	0.00	10.00	75.00	7.00	3.00	0.00	0.00	8.00	0.00	7.00
PSigma Investment Management	47.50	15.00	7.50	0.00	0.00	0.00	7.50	22.50	62.50	10.00	0.00	0.00	0.00	0.00	7.50	20.00
Quilter	69.50	0.00	17.00	2.50	0.00	6.50	0.00	4.50	82.60	0.00	6.50	2.50	0.00	6.40	0.00	2.00
Rathbone Investment Management	67.00	3.00	11.00	2.00	0.00	13.00	0.00	4.00	84.00	3.00	3.00	0.00	0.00	10.00	0.00	0.00
RBC Wealth Management	32.70	8.90	20.00	0.00	0.00	17.50	0.00	20.90	52.60	5.30	11.40	0.00	0.00	10.60	0.00	20.10
Redmayne-Bentley	75.00	11.00	5.00	0.00	0.00	0.00	5.00	4.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
RMG Wealth Management	25.00	0.00	20.00	0.00	0.00	17.00	8.00	30.00	25.00	0.00	20.00	0.00	0.00	17.00	8.00	30.00
Rothschild Wealth Management	50.00	11.00	5.00	4.00	0.00	12.00	8.00	10.00	63.00	0.00	0.00	4.00	0.00	14.00	8.00	11.00
Ruffer LLP	51.00	0.00	31.00	0.00	0.00	1.00	5.00	12.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Seven Investment Management	42.10	21.90	13.90	2.00	0.80	3.30	3.00	13.00	61.90	10.90	7.00	1.80	1.60	2.80	3.00	11.00
Smith & Williamson	68.00	8.00	12.00	3.00	0.00	4.00	0.00	5.00	77.00	5.00	5.00	3.00	0.00	4.00	0.00	6.00
Société Générale Private Banking Hambros	50.00	25.00	10.00	2.00	0.00	0.00	7.00	6.00	75.00	3.50	0.00	0.00	0.00	7.00	6.00	8.50
Stonehage Group	25.00	22.00	3.00	5.00	5.00	30.00	10.00	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Taylor Young Investment Management Ltd	75.80	0.00	5.90	7.20	0.00	0.00	0.00	11.10	79.40	0.00	0.00	3.40	0.00	0.00	0.00	17.20
Thurleigh Investment Managers	21.00	57.00	0.00	2.00	0.00	15.00	2.00	3.00	43.00	37.00	0.00	2.00	0.00	12.00	3.00	3.00
Towry	54.20	4.40	4.30	11.70	0.00	0.00	2.50	22.90	60.50	2.30	2.30	8.90	0.00	0.00	2.40	23.6**
Veritas Asset Management	65.00	28.00	0.00	0.00	0.00	0.00	0.00	7.00	90.00	0.00	0.00	0.00	0.00	0.00	0.00	10.00
Vestra Wealth	66.20	2.50	10.00	0.00	0.00	5.00	3.00	13.30	76.30	0.00	0.00	0.00	0.00	7.50	2.50	13.70
Walker Crips Group	50.00	15.00	10.00	5.00	0.00	5.00	5.00	10.00	70.00	6.00	4.00	4.00	0.00	4.00	4.00	8.00
W H Ireland Ltd	62.50	10.00	5.00	2.50	0.00	10.00	5.00	5.00	75.00	2.50	0.00	2.50	0.00	10.00	5.00	5.00
Williams de Broë	59.00	15.00	11.00	3.00	0.00	3.00	2.00	7.00	76.00	7.00	2.00	4.00	0.00	0.00	2.00	9.00
Average	56.25	13.33	9.39	2.49	0.71	5.82	3.30	9.30	71.44	5.60	4.01	1.83	0.76	4.98	3.43	8.21
Max	88.00	57.00	31.00	11.70	14.00	30.00	10.00	30.00	98.00	37.00	30.00	10.00	8.00	21.00	12.00	30.00
Min	21.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	25.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Notes: Figures as of May 2012. * Includes private equity and hedge funds. ** Includes non-traditional strategies such as long/short funds, via use of regulated UCITS vehicles, EFG Harris Allday. Lloyds TSB Private Banking, RadcliffesLeBrasseur, and UBS Wealth Management did not disclose asset allocations. N/A=Not applicable

Battling inflation

Top performers consistent

Wealth managers were unable to keep their clients' portfolios growing faster than inflation over the past 12 months – with most "balanced" and "capital growth portfolios" making losses, or trailing the UK consumer prices index (CPI), writes **Matthew Vincent**.

One-year performance figures show the average balanced portfolio lost 2.44 per cent of its value in the year to December 31 2011, but even the best performers – from RMG Wealth Management, Ruffer and Stonehage – grew less than the 4.2 per cent rise in the CPI over the calendar year.

Capital growth portfolios fared worse, losing 4.6 per cent on average, with the weakest performers – Taylor Young, Investment Quorum and Greystone – falling by more than the 7.3 per cent drop in the FTSE 100 index.

However, every single balanced portfolio performed better than the FTSE 100 – as well as beating the FTSE World index, which was down by 9.6 per cent in 2011.

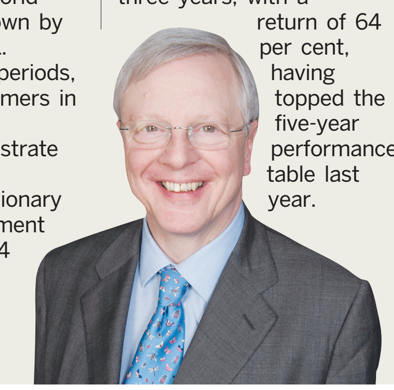
Over longer time periods, the strongest performers in recent years have continued to demonstrate their consistency.

Ruffer, the discretionary investment management firm founded in 1994 by Jonathan Ruffer, has the top-performing balanced portfolio over five years for the second year in a row – returning 56.1 per cent for investors.

In last year's survey, Ruffer's balanced portfolio had also come out on top over three and five years to the end of 2010. However, it has now fallen out of the top 10 list over a three-year timescale, reflecting the fact that its strongest performance came amid the financial crisis of 2008 – success that is no longer reflected in the three-year figures.

Williams de Broe, Veritas and Cheviot Asset Management were among the strongest three-year performers for balanced portfolios in both this year's and last year's survey. But the top performer – Charles Stanley with a 39 per cent return – did not disclose figures last year.

Taylor Young had the best-performing "capital growth portfolio" over three years, with a return of 64 per cent, having topped the five-year performance table last year.



Consistency: Jonathan Ruffer

Money Guide: Private Client Wealth Management

Survey highlights knowledge gaps

Trends

Asset managers and clients both need education, says **Stuart Rutherford** of Ledbury Research

With fewer than six months before the Financial Services Authority (FSA) introduces new standards for advisers under its Retail Distribution Review (RDR), the rush to train wealth managers has become a defining theme of 2012. But while the progress evidenced in this year's survey results is impressive, we at Ledbury Research believe further improvements in education and qualifications are needed.

Our monitoring of UK wealth managers and their clients suggests that there are two other training campaigns to which the industry needs to commit – in addition to meeting RDR requirements.

First, and most importantly, wealth managers need to educate wealthy individuals about their finances and investments.

Ledbury Research's annual survey of 500 wealth management clients with at least £500,000 in investable assets recently assessed their level of knowledge when it comes to investing and financial planning.

We did this by asking the individuals if they were able to explain four different instruments: insurance bonds, exchange traded funds (ETFs), hedge funds and call options.

Our findings, published in our *Knowledge Trend Report*, reveal that clients could explain, on average, just 1.6 of the four different instruments.

One-third of respondents were not able to explain any of the financial instruments and another 15 per cent were able to explain only one of them.

Results were worse for women (who could explain only 1.2 on average), and for clients who were 65 and over (who explained only 1.4). Arguably, these results paint a damning picture of where wealthy individuals are today in terms of their financial knowledge. For the sake of transparency, disclosure and risk management, there is a necessity for wealth managers to address this, but there is also a clear business benefit. Our consumer-based analysis has shown that wealthy clients who understand investing are generally more attractive clients for wealth managers. These individuals use more services, are more likely to think management fees are acceptable, are more satisfied with their main providers and more likely to consider recommending them.

More knowledge makes these clients more attractive – although the incremental benefits associated with greater knowledge levels are gradual among those who can explain three or four of the financial instruments.

Second, after client education, comes training for wealth managers in delivering a service. Ledbury believes firms need to move beyond product knowledge, and focus on developing advisers' service skills.

Again, our research into wealth managers' clients reveals that while RDR-related training is regarded as improving advisers' knowledge, it is having much less impact when it comes to rating the service provided.

In our *High Net Worth* report this month, the percentage of clients who agreed that their main contact is knowledgeable about a range of financial products and services rose from 71 per cent in 2011 to 83 per cent in 2012. However, that means wealthy clients now score their advisers' financial knowledge more highly than their helpfulness, professionalism, responsiveness, accessibility and proactivity.

For clients, these non-technical and very human factors really matter. Indeed, Ledbury's analysis of the key moments in clients' relationships with their wealth managers shows that it is often issues such as poor communication, basic errors, lack of responsiveness, inaccessibility or unhelpfulness that prompt them to change providers.

While the thought of more training may seem daunting to wealth managers – particularly as they rush to get their RDR qualifications – there is clearly a need to address these two additional areas. They should remember that their investment in product training is already being noticed, not just by the FSA but also by clients.

Stuart Rutherford is research director at Ledbury Research

Clients' view

Improving standards

In the *High Net Worth* report produced by Ledbury Research this month, clients of wealth managers were asked if they felt their "main contacts" at the firms they used were knowledgeable about financial products, writes **Matthew Vincent**.

More than eight out of 10 said the managers were knowledgeable – up from 71 per cent in the past year.

Similarly, the number of clients agreeing that their wealth manager contacts were "helpful, professional, responsive, accessible, and proactive" increased from 75 per cent in 2011 to 80 per cent this year.

For this FT Guide to Private Client Wealth Management, Ledbury surveyed more than 80 UK wealth managers – selected according to their UK assets under management. They were asked to provide details of their asset allocations, services and fees, as at May 18 2012, and their portfolios' performance as at December 31 2011.

Services

Wealth manager	Number of UK offices	Number of client-facing advisors/relationship managers in UK	% of advisers achieving minimum qualification *	Advice classified as 'independent' *	Advice classified as 'restricted' *	Classification of advice undecided *	Products recommended from entire market ('open architecture')	Products recommended from selected universe ('guided architecture')	In-house products only	% of discretionary portfolios invested in-house	Discretionary portiofolio management	Advisory portfolio management	Brokerage	Private equity	Hedge funds (including fund of funds)	Commodities	Tax planning	Trust & estate planning	Pensions & retirement planning	Philanthropic planning	Insurance	Banking	Mortgages	Other lending	Charity services	Offshore services	Concierge
Adam & Company	5	80	100			X		X		2.00	X							X	X	X		X	X	X	X	X	
Ashcourt Rowan PLC	18	137	77			X	X			<0.50	X	X					X	X	X						X	X	
Barclays, Wealth and Investment Management	19	331	90			X		X		26.00	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Berry Asset Management PLC	1	7	57		X		X			0.00	X														X	X	
Bestinvest	22	54	100	X			X			20.00	X	X	X		X	X	X	X	X		X						
Brewin Dolphin	40	634	90			X	X			0.00	X	X					X	X	X						X	X	
Brooks Macdonald Asset Management	7	53	93		X		X			2.00	X	X	X												X	X	
Brown Shipley	5	71	78			X	X			6.60	X				X	X		X	X			X		X	X	X	X
Cazenove Capital Management	5	69	100	X			X			18.00	X			X	X	X	X	X	X						X	X	
Charles Stanley Group PLC	32	550	100			X	X			1.50	X	X	X				X	X	X						X		
Cheviot Asset Management	2	41	100	X			X			<1.00	X	X	X	X	X	X									X	X	
C. Hoare & Co.	2	53	90	X			X			0.00	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	
City Asset Management PLC	2	9	80			X	X			3.00	X			X	X	X	X	X	X		X				X	X	
Close Brothers Asset Management	9	137	80			X	X			0.26	X	X					X	X	X						X	X	
Collins Stewart Wealth Management	1	34	50		X		X			3.00	X	X	X		X	X	X	X	X						X	X	
Coutts	28	318	99			X	X			0.00	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X
Deutsche Bank Private Wealth Management	5	Approx. 80	90			X	X			0.00	X	X	X	X	X	X	X	X	X	X		X	X	X		X	
Duncan Lawrie Private Bank	3	23	100		X		X			0.00	X	X					X	X	X			X		X		X	
EFG Harris Allday	4	35	98 **	X			X			0.00	X	X	X												X		
Equilibrium Asset Management LLP	2	5	100	X			X			0.00	X	X					X	X	X								
GHC Capital Markets Ltd	3	9	100			X	X			12.00	X	X	X														
Greystone Financial Services	2	22	95	X			X			100.00	X	X					X	X	X				X		X	X	
Heartwood	2	17	95		X		X			46.00	X						X	X	X	X					X		
HSBC Bank	1265	1544	N/D			X		X		Varies	X		X	X	X	X	X	X	X		X	X	X	X		X	X
HSBC Private Bank UK Ltd	10	223	100			X	X			17.00	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	
Investec Wealth and Investment	11	230	96			X	X			2.60	X	X						X	X						X	X	
Investment Quorum Ltd	1	4	80	X			X			0.00	X	X					X	X	X		X		X	X	X	X	
James Brearley & Sons	5	10	90		X		X			0.00	X	X	X		X	X									X		
J O Hambro Investment Management	1	22	82		X		X			8.80	X																
JP Morgan Private Bank	1	68	N/A				X			N/A	X	X	X	X	X	X		X	X	X		X	X	X	X	X	
Jupiter Private Clients & Charities	1	13	85		X		X			34.30	X														X		
Killik & Co	10	72	90.80		X		X			0.00	X	X	X		X	X	X	X	X	X	X		X	X	X	X	X
Lloyds TSB Private Banking	31	N/D	N/D			X		X		67.00	X						X	X	X		X	X	X	X		X	
McInroy & Wood Ltd	2	8	100			X			X	70.00	X														X	X	
Newton Investment Management Ltd	3	33	100				X			30.00	X														X	X	
Pictet	1	7	N/A				X			N/A	X	X	X	X	X	X		X		X				X		X	
Principal Investment Management Ltd	5	34	76			X	X			0.04	X																
PSigma Investment Management	1	14	100			X	X			1.26	X																
Quilter	13	116	97		X		X			N/A	X	X	X	X	X	X									X	X	
RadcliffesLeBrasseur	3	109	N/A							N/A							X	X	X	X						X	
Rathbone Investment Management	11	184	95		X		X			2.15	X	X					X	X	X						X	X	
RBC Wealth Management	3	82	91		X		X			8.20	X	X		X	X	X	X	X	X	X		X	X	X	X	X	
Redmayne-Bentley	35	102	80			X	X			0.00	X	X	X														
RMG Wealth Management	1	2	100		X				X	75.00	X																
Rothschild Wealth Management	1	34	100			X	X			4.50	X	X		X	X	X	X	X		X		X	X	X	X	X	
Ruffer LLP	2	26	N/D				X			39.00	X																
Seven Investment Management	2	37	86				X			0.00	X																
Smith & Williamson	6	177	c. 95		X		X			c. 6.00	X	X	X	X	X	X	X	X	X	X		X		X	X	X	
Société Générale Private Banking Hambros	6	79	N/A		X		X			2.00	X	X	X	X	X	X	X	X	X			X	X	X	X	X	X
Stonehage Group	2	16	65	X			X			<1.00	X	X	X	X	X	X	X	X	X	X		X		X	X	X	X
Taylor Young Investment Management Ltd	1	6	100			X	X			16.00	X	X															
Thurleigh Investment Managers	1	7	71		X		X			0.00	X														X	X	
Towry	19	148	98			X	X			100.00	X						X	X	X						X		
UBS Wealth Management	7	200	95		X			X		11.00	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
Veritas Asset Management	1	10	N/D						X	31.00	X															X	
Vestra Wealth	2	44	95			X	X			0.00	X	X		X	X	X	X	X	X						X	X	
Walker Crips Group	8	79	100	X			X			<5.00	X	X	X	X	X	X	X	X	X								
W H Ireland Ltd	19	91	33	X			X			N/A	X	X	X				X	X	X		X		X				
Williams de Broë	7	120	98			X	X			Minimal	X	X	X		X	X									X	X	
% offering services											98	64	41	32	44	44	56	64	61	27	20	29	29	34	66	68	12

Notes
* Under new regulations from January 2013 ** estimated. N/A= Not applicable N/D=Not disclosed

Money Guide: Private Client Wealth Management

Flexibility remains priority for investors

Liquidity

Wealth managers move away from property as clients demand quick exit routes, writes Lucy Warwick-Ching

Private clients are still seeking reassurance from wealth managers that their portfolios are flexible enough to negotiate stock market volatility.

During the financial crisis of 2008, clients of several wealth management firms discovered that their portfolio managers were unable to sell holdings and cut losses – because they had committed so much money to illiquid assets that had no functioning secondary market.

"The financial crisis of 2008 resulted in many investors becoming stuck in investments that applied restrictions on trading," recalls Caroline Shaw, fund manager at Courtiers. "Some of these restrictions still apply, four years later, and investors have lost much of the original monies invested. In some cases, funds have gone into administration with no hope of any recovery."

Most notably, property funds – previously popular with clients – got into serious difficulty in 2008 as investors tried to head for the exit, only to find themselves locked in by fund managers unable to sell properties and return cash.

Today, at least, the eurozone debt crisis has not caused the levels of panic selling that would cause similar liquidity problems. "The wider liquidity of the financial system, though tight, is nowhere near as constrained as during the credit crisis," points out Alan Higgins, chief investment officer UK at Coutts. "That said, a lot has changed since 2008, including our approach.

"Managers are much more aware of liquidity risk and wouldn't buy similar structures today."

Of the 59 firms that disclosed their balanced portfolio holdings to the FT this year, more than half reported a lower allocation to property than last year. Overall, the average property allocation fell from 11.50 per cent to 2.41 per cent over a 12-month period.

While this reflects wider market sentiment towards property, it also suggests a move away from illiquid assets in case of further market turmoil.

PSigma Investment Management says it specifically sold its UK commercial property positions in late 2011 as it had became concerned over slowing inflows to the asset class, and feared the best returns from the asset class had been seen. "Liquidity is a key concern, even obsession, for us," says Tom Becket, chief investment officer at PSigma. "This year, we have become more concerned over the near-crippling lack of liquidity across all asset classes. In all but the very rarest circumstances, we work on the basis that if we can't get our money out on the day we want to, then we won't invest."

Charlie Hoffman, managing director of HSBC Private Bank, says clients' portfolios are far more liquid nowadays, "partly through their experience of 2008, and partly because they don't believe that the underlying problems associated with the eurozone and the global economy have been fixed".

But he also believes clients are waiting for the right buying opportunity and want to be able to sell some holdings and buy others as soon as it arises.

Building liquidity into portfolios is also a key requirement for Chris Kenny, investment director at Smith & Williamson. "The exit route from an asset can be as important as the entry," he stresses. "We also start from the point of view that a typical family will have money tied up in property, and/or a business, so one of the few places they have liquidity is through their portfolios. So we tend to keep people's portfolios flexible."

Far from having memories that are too short, private investors appear to have the lessons of 2008 weighing heavily on their minds, advisers say. Liquidity therefore remains a key determinant for wealth managers deciding on portfolio weightings.

"The result is that most clients should now have diversified investment portfolios with limited ongoing liquidity concerns," says Patrick Connolly at AWD Chase de Vere. "The exceptions will be those investors or advisers who try to be too clever and are overexposed to higher-risk, more obscure, illiquid assets."

Liquid test

Monitoring the markets

Wealth managers monitor the liquidity of asset classes in their clients' portfolios by looking at daily trading volumes and having regular conversations with fund managers, traders and brokers, writes **Lucy Warwick-Ching**.

"Most of the volume data are easily accessible, but we find the insight from sources at investment banks and trader brokers vital to our analysis and understanding of liquidity," says Tom Becket, chief investment officer at PSigma Investment Management.

He also pays close attention to the flows of cash into certain investment funds. For example, he gives the Invesco Perpetual Income fund a higher liquidity risk score due to its large size, which would make it difficult to sell large holdings were there a rush of investors looking to exit.

Gautam Chadda, investment consultant at RBC Wealth Management, says clients should remember the difference between the liquidity profile in a term-sheet or prospectus for a fund, and the liquidity profile of an underlying asset.

"Take the example of exchange-traded funds, where the actual ETF may be highly liquid," he says. "However, the ETF may try to replicate the performance on an underlying asset class that is less than liquid."

Money Guide: Private Client Wealth Management

Clients, assets and fees

Wealth manager	Minimum portfolio size for advisory management	Minimum portfolio size for discretionary management	Annual fee tariff for discretionary portfolio management services	Option to pay hourly fee instead	No option to pay hourly fee instead	Hourly fee option undecided
Adam & Company	N/A	250,000	1.25% on the first £500,000; 1% on the next £500,000; 0.75% on the next £3m; 0.50% thereafter. Minimum fee £2,000 plus VAT			X
Ashcourt Rowan PLC	N/A	50,000	Option 1 (wrapped, ie inclusive of dealing fees): 1.50% plus £10 per transaction. Option 2 (unwrapped, ie dealing fees charged separately): 1.00% plus 0.75% dealing charge on the first £15k, plus £10 per transaction			X
Barclays, Wealth and Investment Management	500,000	250,000	1.25% on the first £1m, 1.00% on the next £2m, 0.75% on the next £4m, 0.50% thereafter			X
Berry Asset Management PLC	250,000	250,000	1.00% on the first £1m; 0.75% on the next £1m; 0.50% on the next £1m; 0.30% on the next £2m; 0.20% thereafter		X	
Bestinvest	100,000	50,000	1.00% for portfolios of more than £250,000*	X		
Brewin Dolphin	No minimum	No minimum	0.75% on the first £1m; 0.6% on the next £1m; 0.375% on the next £3m. Minimum commission £50 per transaction.	X		
Brooks Macdonald Asset Management	200,000	200,000	0.75% to 1.25% depending on portfolio size and mandate.†		X	
Brown Shipley	N/A	500,000	1.50% on the first £1m; 0.75% thereafter. Minimum fee £1,500			X
Cazenove Capital Management	N/A	1,000,000	Option 1: 1.00% on the first £1m; 0.50% thereafter (commission rates: 1.00% on the first £30,000 of equities, 0.50% thereafter; 0.75% on the first £30,000 of bonds, 0.25% thereafter).		X	
			Option 2 (all-in annual management fee): 1.25% on the first £1m; 0.75% thereafter			
Charles Stanley Group PLC	No minimum	No minimum	0.50%-1.00% depending on portfolio size. By arrangement, minimum £400			X
Cheviot Asset Management	250,000	250,000	1.00% on the first £1m; 0.50% on the next £1.5m; 0.40% on the next £3m; 0.30% thereafter		X	
C. Hoare & Co.	100,000	500,000	1.00% on the first £5m; 0.90% on the next £5m; 0.80% on the next £10m; 0.60% thereafter (inclusive)	X		
City Asset Management PLC	N/A	100,000	1.00% on the first £10,000; 0.5% thereafter	X		
Close Brothers Asset Management	N/A	250,000	Varies depending on investment amount and type of service selected			X
Collins Stewart Wealth Management	250,000	250,000	Option 1: 1.50% annual fee with £40 bargain charge per transaction	X		
			Option 2: 0.75% annual fee on the first £10,000 plus commission of 0.85%; 0.40% thereafter			
Coutts	3,000,000	250,000	1.00% plus fund charges			X
Deutsche Bank Private Wealth Management	1,000,000	250,000	Varies depending on portfolio value			X
Duncan Lawrie Private Bank	250,000	250,000	1.00% on the first £1m, 0.50% thereafter	X		
EFG Harris Allday	No minimum	No minimum	Commission if transactional service is still provided as main service. Fee-based services available on request		X	
Equilibrium Asset Management LLP	100,000	100,000	1.50% on the first £1m; 1.00% thereafter, but reducing on a sliding scale for portfolios of more than £3m. Maximum £10,000		X	
GHC Capital Markets Ltd	20,000	20,000	0.75% on the first £1m, by negotiation thereafter. Minimum £750. Dealing commissions 0.75%. Minimum commission £30. Bargain charge £5		X	
Greystone Financial Services	75,000	1,000,000	N/D	X		
Heartwood	N/A	500,000	1.25% on the first £1m; 1.00% on the next £2.5m; 0.75% thereafter, plus VAT where applicable			X
HSBC Bank	N/A	150,000	Varies depending on services and size of account.			X
HSBC Private Bank UK Ltd	2,000,000	2,000,000	1.00% on first £3m, minimum £12,500; 0.75% on next £2m, minimum £30,000; 0.60% on next £5m, minimum £37,500; 0.50% thereafter, minimum £60,000			X
Investec Wealth and Investment	100,000	100,000	1.00% on the first £500,000, 0.75% on the next £500,000, 0.50% thereafter. Minimum £1,000 plus VAT. £25 bargain administration charge per transaction			X
Investment Quorum Ltd	100,000	100,000	1.25% on first £1m; 1.00% on next £4m; 0.80% thereafter		X	
James Brearley & Sons	50,000	50,000	0.50% plus VAT.		X	
J O Hambro Investment Management	N/A	1,000,000	1.20% on the first £1m; 0.80% thereafter		X	
JP Morgan Private Bank	N/A	N/A	N/A			
Jupiter Private Clients & Charities	500,000	500,000	1.00% on the first £2m; 0.75% thereafter		X	
Killik & Co	No minimum	100,000	1.00% on the first £250,000; 0.75% on the next £250,000; 0.50% on the next £500,000; negotiable thereafter	X		
Lloyds TSB Private Banking	N/A	250,000	0.60-1.00% + VAT depending on portfolio size, plus fund management charges			X
McInroy & Wood Ltd	N/A	10,000	1.00% plus VAT			
Newton Investment Management Ltd	N/A	1,000,000	1.00% on the first £5m; 0.50% on the next £5m; fixed percentage rate thereafter depending on portfolio size			
Pictet	5,000,000	2,000,000	N/A		X	
Principal Investment Management Ltd	N/A	50,000	1.25% on the first £500,000; 1.00% thereafter, plus VAT			X
PSigma Investment Management	N/A	100,000	1.00% on the first £2m; 0.75% on the next £2m; 0.65% on the next £1m; negotiable thereafter		X	
Quilter	200,000	200,000	Option 1: flat fee based on value of portfolio with no additional dealing/custody charges		X	
			Option 2: fee plus dealing commission			
RadcliffesLeBrasseur	N/A	N/A	N/A	X		
Rathbone Investment Management	100,000	100,000	1.00% on the first £1m; 0.5% thereafter, plus £100 fixed charge on all accounts (not applicable for funds valued at below £15,000), plus £20 fixed charge on each transaction		X	
RBC Wealth Management	1,000,000	500,000	1.25% on the first £1m, 1.00% on the next £2m, 0.85% on next £2m, 0.70% on the next £5m, negotiable thereafter. Minimum £5,000		X	
Redmayne-Bentley	50,000	50,000	0.85%		X	
RMG Wealth Management	500,000	10,000	1.00%.		X	
Rothschild Wealth Management	5,000,000	5,000,000	From 1.00%		X	
Ruffer LLP	N/A	250,000	N/A			
Seven Investment Management	N/A	200,000	0.90% discretionary fund charge applied to fund itself plus fee of 0.25% + VAT on the first £500,000, 0.10% + VAT on the next £500,000, nil thereafter			
Smith & Williamson	No minimum	No minimum	1.00% on the first £2m; 0.50% thereafter** 0.4% commission on fixed interest stock other than convertible and preference stock ; 0.6% commission on all other investments		X	
Société Générale Private Banking Hambros	500,000	500,000	Option 1 (wrapped, ie inclusive of dealing fees): 1.50% on the first £500,000; 1.25% on the next £1.5m; 1.00% thereafter. Minimum £5,000		X	
			Option 2 (unwrapped, ie dealing fees charged separately): 1.00% on the first £500,000. 0.75% on the next £500,000; 0.50% thereafter. Minimum £3,000			
Stonehage Group	600,000	600,000	0.75-1.25%.		X	
Taylor Young Investment Management Ltd	300,000	300,000	Option 1 (mix of management fees and transaction commissions): 1.00% on the first £1m; 0.50% on the next £4m; by arrangement on the next £5m . Minimum fee £5,000. Transaction commissions of 1% on UK equities & funds, 0.5% on gilts, UK fixed interest and hedge funds (all per bargain)		X	
			Option 2 (clean fee)***: 1.25% on the first £1m; 0.75% on the next £2m; 0.50% on the next £2m; by arrangement on the next £5m. Minimum £5,000			
Thurleigh Investment Managers	N/A	500,000	1.25% on the first £5m; 1.00% thereafter		X	
Towry	N/A	100,000	2.00% on the first £200,000; 1.15% on the next £300,000; 0.90% on the next £500,000; 0.75% thereafter (inclusive of VAT)	X		
UBS Wealth Management	1,000,000	500,000	N/D			
Veritas Asset Management	N/A	1,000,000	1.00% on the first £2m; 0.75% on the next £8m; 0.60% thereafter****			
Vestra Wealth	500,000	500,000	N/A			X
Walker Crips Group	50,000	50,000	Tiered annual management fee starting at 1.00%. Tiered dealing commissions	X		
W H Ireland Ltd	N/A	N/A	1%		X	
Williams de Broë	250,000	250,000	Option 1: 1.00% on the first £500,000; 0.75% thereafter. Minimum £1,000. Transactional charge £35 plus dealing commission of 1.00% on the first £15,000; 0.75% thereafter Option 2: 1.25% on the first £1m; 1.00% on the next £1.5m; 0.75% thereafter. Miminum £1,500. Flat transaction charge of £35			X

Notes: N/D=not disclosed. * with any trail commission rebated against the fee for discretionary management. ** Amounts held outside individual savings accounts (Isas). *** If clean fee selected, broker commissions, if applicable, will be charged. For overseas securities additional charges may apply. Qualifying family portfolios may be aggregated for calculating management fees. **** No fee on top of fees for in-house funds and no Veritas dealing commission. † Restricted to discretionary investment management. NA=Not applicable or available

Money Guide: Private Client Wealth Management

Advisers still grappling with end of commission

Advisers will soon need a minimum qualification Dreamstime

Regulation

A move to greater transparency over clients' fees will come at a price, writes **Tanya Powley**

Greater transparency over how wealth managers are paid, and how "independent" their advice is, must be provided from January 2013 – but not all firms are yet ready for the changes.

From next year, the Financial Services Authority (FSA) will ban all financial advisers from receiving commission from providers for selling their products, under its long-awaited Retail Distribution Review (RDR). Advisers and wealth mangers will only be permitted to charge fees for the work they do – radically altering the business models of firms not yet taking this approach.

At the same time, firms will have to change the way they describe their advice – choosing to declare their range of services as either "restricted" or "independent". Advisers will also have to attain a minimum professional qualification to deal with clients.

With the countdown under way, many wealth managers say they are close to getting all staff up to the new QCF Level 4 standard. To date, 97.5 per cent of Smith & Williamson's advisers have the required qualification, with the remainder expected to gain this status in coming months. Similarly, Vestra Wealth and Towry say that 95 and 96 per cent of their client-facing staff, respectively, are "RDR-ready".

However, some have further to go. According to figures disclosed to the Financial Times, Collins Stewart Wealth Management has only 50 per cent of its advisers qualified to the minimum standard, while Berry Asset Management has 57 per cent. But while firms are quick to reassure clients that advisers will meet the deadline, they are more reluctant to say whether they will offer "restricted" or "independent" advice.

Under the new rules, firms that advise on a limited range of product types, or use only certain product providers, will have to make it clear to clients that their advice is "restricted".

Of the 56 firms that took part in the FT's survey, 17 said they would be in this category – including Smith & Williamson and Rathbones.

A smaller number – just 10 – said they would provide independent advice, including Cazenove Capital Management, C Hoare and Co and Greystone Wealth Management.

That leaves as many as 19 major UK wealth managers undecided about the type of advice they will offer (excluding those that did not respond at all). They include Coutts and Co, Vestra Wealth, Rothschild Wealth Management, Killik and Co, Towry, Barclays Wealth and Charles Stanley.

Some are waiting for guidance from the Solicitors Regulation Authority, which is due on July 4, according to a spokesman for Charles Stanley.

Bestinvest says its wealth management services will be independent, although it is still considering the position of its investment advisory and management services.

Brewin Dolphin is aiming to achieve fully independent status and expects to be able to attain this shortly, says executive chairman Jamie Matheson.

The company has already reviewed its charging structure, though, and moved to a transparent pricing policy. Clients of Brewin Dolphin now pay 0.75 per cent for the first £1m invested, which drops to 0.6 per cent for the next £1m, and down to 0.375 per cent for those investing a further £3m.

But other wealth managers remain cagey on how they will change their fees. Coutts & Co says it has not announced its tariff yet, and the same applies to Barclays Wealth.

Bestinvest already offers financial planning and discretionary portfolio management on a fee basis but its investment advice has traditionally been paid for from trail commission.

Last year, it launched an RDR-ready advisory service, which can switch to fees "very easily" – and it will announce what those fees are later this year.

Other firms have had their fee structure worked out for some time. Towry has charged fees for the past six years, while Smith & Williamson, Vestra Wealth, Charles Stanley and Brooks Macdonald are also fee-based businesses.

Chris Macdonald, chief executive of Brooks Macdonald, says: "Transparency is a good thing and I do believe that clients will benefit from this. However, with the further raising of professional standards, advice costs are bound to increase."

Lehman legacy haunts managers

Lehman collapse: a turning point for asset managers Getty

Correlation

Collapse of US bank scuppered the investment theory of diversification, writes **Nick Louth**

For wealth managers, financial advisers and hedge fund managers, the collapse of Lehman Brothers in 2008 was a disaster in more ways than one. Not only did it send shockwaves through global financial markets, it also demolished a crucial underpinning of asset management: the idea that diversification reduces risk.

Until that point, modern portfolio theory held that, by diversifying a portfolio across assets and securities whose prices did not move together, or "correlate", you could reap the rewards, but offset market risk.

Its practical application had been demonstrated in the stellar performance of endowment funds run by Ivy League US universities Yale and Harvard. In the years to 2008, they had achieved mid-double digit returns over sustained periods by diversifying into private equity and hedge fund assets. Wealth managers sought to do the same for their clients. But, after the financial crisis of 2008, this asset allocation theory stopped working.

"If you look before the Lehman crisis, correlations among equities and bonds were actually very low," says Stacy Williams, head of FX Quantitative Strategy at HSBC.

"After Lehman, they surged to very high levels and have generally stayed very high since."

For almost four years now, wealth managers have found themselves experiencing only two kinds of price movement: risk-on, when the prices of riskier assets rise, and risk-off, where investors flee to safe havens.

These changes have been charted by HSBC in a set of "correlation matrices", on which asset classes whose prices that move in line with each other show up as red, and assets that move in an unrelated way show up as blue – effectively displaying correlations as a "heat map".

In 2005, there were two heat spots of high correlation, one primarily centred among the equity markets, and one among government bonds, amid a cool blue sea of uncorrelated commodity, currency and other markets.

By 2012, these spots had expanded to enormous red suns, with a hot corona showing how commodities and currencies that had hitherto moved in their own directions were all moving the same way.

"It is difficult now to find an area that isn't correlated," admits Rob Morgan, an analyst at brokers Hargreaves Lansdown. "That even seems to be happening with gold."

As a result, wealth managers who profited from selling the benefits of diversification found themselves struggling. Many put client portfolios into unfamiliar trades or investment niches that were supposed not to be correlated. They didn't work. Even Yale and Harvard, exponents of diversification, lost almost 30 per cent in 2008/2009.

"The difficulties arise when people claim that some assets are inherently uncorrelated," argues Professor Joseph Lampel of the Cass Business School.

"It is an illusion . . . the collapse in 1998 of [hedge fund] Long Term Capital management, with all those Nobel Prize winners aboard, should have been a warning." LTCM relied on the relationships between asset class pricing staying the same – something that Lampel says could never be relied upon.

Opinions differ over why correlations have changed. "Some suggest that it is a natural state of the capital asset pricing model," says Williams, "that ultimately there is only one risk premium out there and it sits within all markets."

> 'Before the Lehman crisis, correlations among equities and bonds were actually very low'

That is in line with a second theory – that increased access to markets that were previously obscure or illiquid, and the greater use of derivatives and leverage, have exposed more assets to sentiment. Once an exchange-traded fund (ETF) can access a market, investors can move in and out at a keystroke – so, in periods of nervousness, strong downward correlations can easily assert themselves.

For example, a rational investor, faced with a margin call on a derivative, will seek to withdraw cash from markets that are not affected by the same fears that drove the margin call. But if a previously uncorrelated market offers the best chance of extracting cash without price penalty, this builds in a behavioural correlation on the downside.

"As the credit crunch demonstrated, when risk assets deliver unusually large negative returns, they tend to become significantly more positively correlated with other risk assets, with which they may not normally have a strong relationship," says Edward Smith, Global Strategist at Collins Stewart Wealth Management.

Gold's recent performance – moving in line with shares and weak economy bonds – illustrates this. "I was not surprised to see the recent fall in gold," says Lampel. "Once you switch into it as a speculative commodity rather than as a refuge, a hedge against risk, the correlation will increase."

An eventual end to the financial crisis could see correlations among risk assets diminish. But with more liquid ways to access obscure markets, a return to the pre-Lehman days appears unlikely.