Private Client Wealth Management

An FT Money Guide

Managers face tough choices in new era of financial advice

Chris Tosic

Great rotation? More like a capitulation

Strategies

Investors are switching out of cash into riskier assets, writes *Tanya Powley*

Talk of a "great rotation" from bonds to equities is premature, say wealth managers, but a greater appetite for risk is slowly emerging among private investors.

While there has been a rise in flows into the stock market this year, most experts put this down to investors moving money from cash, rather than bonds, as investors tire of rock-bottom deposit rates.

"There is no clear sign of a decisive move away from fixed interest by investors," notes Tom Becket, chief investment office at Psigma Investment Management.

The results of our annual survey of wealth managers bear this out. Most managers have increased exposure to equities, but this has not generally been at the expense of bonds – allocations to fixed income have increased too. Cash is the only asset class to see year-on-year declines.

Experts say the exit from cash is long overdue. Susan Boyd, investment director at wealth manager Adam & Company, says investors have been forced up the risk curve due to the paltry saving rates on offer.

"Before the crisis, cash deposits paid about 6 per cent and inflation was significantly below that, so investors didn't really have to take any decision. You could happily sit on that and not really bother with investing," she says.

However, with cash rates plummeting in recent years, investors have had to take on more risk if they want to achieve a real return on their money, says Boyd.

Figures from Moneyfacts, the financial data provider, highlight how far cash rates have fallen. The average one-year fixed-rate bond paid out 5.73 per cent in June 2007, compared to 1.66 per cent today.

While some cash has gone into equities, wealth managers note that it has not yet resulted in the much-anticipated "death of bonds".

Figures from the Investment Management Association corroborate the findings of FT Survey of Leading Wealth Managers. The best-selling sector for individual savings accounts money in the most recent tax year was the sterling strategic bonds, according to the body, which represents the open-ended funds industry in the UK.

According to Sanjay Joshi, head of fixed income at London & Capital, the discretionary wealth manager, alongside equities, high yield and emerging market debt has attracted new investment. "As cash holdings are further unwound, all of these asset classes are likely to benefit from supportive macro policy and technical conditions. However, this is not a signal to charge into high-beta stocks, but to remain focused on high-dividend companies for equities and rising stars in the high yield and emerging market debt space," he says.

Kevin Gardiner, chief investment officer for Europe at Barclays, is sceptical that private investors will ever opt to sell their bond holdings. "Where they own them, in many cases those bonds have done such a good job for investors in maintaining and growing their real wealth that they are almost viewed as family retainers," he says.

"Our advice is to focus on other investments for new money but realistically we're not going to see many private clients dumping bonds wholesale," adds Gardiner.

> 'A rare phenomenon of boring but worthy sectors, such as utilities, leading the market higher'

David Absolon, investment director at Heartwood, agrees. "Investors remain desperate for income and bonds, while producing low yields by historic standards, are still producing returns. In some sub-asset classes these are still compelling in the current climate."

This focus on yield has led more investors to the stock market. According to Becket, most new money coming into equity markets has focused on high quality, defensive equities.

"This has led to a rare phenomenon of 'boring but worthy' sectors such as utilities, healthcare and consumer staples leading the market higher in the recent rally," he says. Shares in companies like Diageo, Unilever and GlaxoSmithKline are trading at relatively rich multiples.

Becket says private investors have given up on the quest for growth over the last few years, as they have become increasingly obsessed with income. He notes that emerging markets, for instance, have underperformed developed equities for much of the past two years. However, as most of the obvious "value" investments have become expensive he says it is time to focus on longer term opportunities.

Nick Murphy, investment management partner at Smith & Williamson, agrees. "The valuations of stocks in many of these so-called defensive sectors are becoming stretched relative to history – the adage that there is no sector that can't be ruined by too much money is starting to be a concern," he says.

So where are the long-term opportunities? Becket points towards under-priced growth companies in Europe, Japan and the emerging markets. "Some of these assets, such as industrial and financial companies, are trading on relative valuations that have rarely been seen before and present outstanding value," says Becket.

Many wealth managers believe long-term opportunities lie in Europe and Japan. Citi Private Bank has been overweight in Japan over the past year and continues to remain positive on the market there, says Alexander Godwin, global head of asset allocation at the bank.

Performance

	% total returns of balanced portfolios			% total returns of capital growth portfolios		
Wealth manager	Over 1 year	Over 3 years	Over 5 years	Over 1 year	Over 3 years	Over 5 years
Adam & Company †	10.3	27.4	22.9	11.11	29.53	22.56
Arbuthnot Latham & Co., Limited	12.85	14.02	4.97	12.75	15.88	6.16
Ashcourt Rowan	7.8	11.5		7.1	7.1	
Berry Asset Management PLC †	9.8	19.3	16.2	13.8		
Brooks Macdonald Asset Management †	9.4	18.1	14.6	9.6	17.9	12.6
Brown Shipley	13.8	19.7	9.2	10.1	12.9	7.5
C. Hoare & Co. †	8.7	22.4	19.2	11.8	24.9	14.9
Canaccord Genuity Wealth Management	9.27	23.5	21.1	7.52	22.8	15.9
Cazenove Capital Management †	9.4	19.5	19.8	10.7	22.1	17.3
Charles Stanley Group PLC		29.6	30.8			
Citi International Personal Bank, UK	8	21	24	9.5	23	23
City Asset Management Plc †	8	14.5	16.3	8.3	20.3	29.2
Coutts	5.8	11.3	12.8			
Dart Capital	6.71	10.75		10.1	16.4	
Duncan Lawrie Private Banking †	10.7	21.1		10.8	26.9	
Equilibrium Asset Management	11.1	17.3	23.4	11.7	16.7	
GHC Capital Markets Limited	15.43	22.59	25.74	20.8	35.27	29.46
Greystone Financial Services	14	20.3	9.1	13.1	22.4	20.8
Heartwood Investment Management	7.9	15.5	17.5	10.7	16.7	19.1
Ingenious Asset Management †	7.03	17.98	12.59	7.89	19.46	11.87
Investec Wealth & Investment †	10.43	20.72	16.77	11.61	21.92	14.88
Investment Quorum Ltd	10.87	17.77	20.64	11.95	19.17	19.2
JP Morgan Private Bank						
Jupiter Asset Management †	8.47	18.03		8.92	17.68	
Killik & Co						
Kleinwort Benson †	7.92	18.89		7.57	17.69	
Lombard Odier & Cie.						
London & Capital Asset Management Ltd	9.3	15.1		9.1	14.8	
McInroy & Wood Ltd †	11.4	30.4	44.8	11.4	30.4	44.8
NW Brown						
Psigma Investment Management †	7.51	16.22	18.89	7.88	17.11	17.02
Quilter Cheviot †	9.15	21.18	18.85	10.58	21.36	12.59
Rathbone Investment Management	9.35	22.8	23	10.3	22.9	21.3
RBC Wealth Management †	9.48	19.52	28.86	10.89	21.22	26.26
Redmayne-Bentley						
Rothschild †	7.7	16.2	20	7.4	13.6	12.4
Ruffer LLP	4.6	22	59.8			
Saunderson House Limited	11.09	20	21.38	11.75	19.52	16.73
Schroders Private Banking * †	4.4	13.2	16.4	6.6	13.9	15.8
Seven Investment Management †	9.22	14.02	15.47	10.47	14.8	13.85
SGPB Hambros	7.76	16.32	28.67	8.16	14.94	11.08
Smith & Williamson †	10.17	24.69	30.5	10.66	23.95	30.02
Thurleigh Investment Managers						
Towry	6.1	11.8	11.1	6.7	12	16.5
UBS						
Vestra Wealth	10.04	16.8		11.5		
Walker Crips						
Average	9.2	18.8	21.1	10.3	19.6	18.6
Max	14	30.4	59.8	13.8	35.27	44.8
Min	4.4	10.75	4.97	6.6	7.1	6.16

Notes
* Do not disclose total return figures after fees, therefore provived figures for the balanced portfolios and capital growth portfolios are with fees includedBentley stated that figures were not applicable or available. Brown Shipley,
† Indicates ARC–compliant data. The ARC Measure indicates those firms whose performance figures have been independently calculated by Asset Risk Consultants (ARC), following analysis of that firm's actual private client portfolio returns. As a result, such performance figures can be considered to be a true and accurate reflection of the average private client investment experience. ARC is an international independent investment consultancy with a proven expertise in research private client discretionary investment managers. For more information, visit www.assetrisk.com.

Money guide: Private client wealth management

Dull but worthy? Unilever and the like have led the market higher
Bloomberg

Cashing out

The move of money out of cash savings into riskier assets will gather pace in the coming year as private investors fight a losing battle against inflation, **writes Tanya Powley**.

Savings rates have fallen from almost 5.75 per cent for a one-year fixed-rate bond in June 2007 to around 1.66 per cent today, forcing many investors to reassess their cash holdings.

Tom Becket, chief investment officer at Psigma Investment Management, says money will continue to move out of cash in coming months.

"We have seen new cash added by clients to their portfolios in recent months, especially from those who had fixed-term cash deposits that have recently expired and where current rates are pathetically low."

Susan Boyd, investment director at wealth manager Adam & Company, says savings rates have worsened in the past year, largely as a result of the Funding for Lending scheme launched last August.

"Initially in the first few years of the downturn banks were bidding up for cash deposits so the real return available on cash didn't reflect the Libor rate," she said. "It's definitely changed now as banks have got their loans to deposits into line, and that's left deposit clients really looking at returns significantly below inflation."

Fewer clients, but increased assets

Trends

The average wealth management client has £870,000, says *Stuart Rutherford*

While the wealth management industry may have arrived safely in the post-retail distribution review (RDR) world, the journey has not been without loss. Evidence is to be found in empty bankers' desks and less busy client meeting rooms.

The first FT Survey of Leading Wealth Managers since RDR came into effect shows that the biggest change to the industry is the fall in the number of active private clients served in the UK and client facing advisers – both are down by 2 per cent on a like-for-like basis compared with one year ago.

The decline in bankers bears out concerns about the challenging training requirements of RDR and cost pressures. The reasons behind the decline in clients are less obvious. In part they are the result of key players prioritising some clients over others in pursuit of improved returns. Additionally, Ledbury Research's tracking of the high net worth individual (HNWI) population in the UK reveals that HNWIs place more of their wealth with main providers – and in some cases are culling the number of relationships.

In Ledbury's Client Landscape 2013, we reported that almost one-third of the managed wealthy in the UK have most of their investable wealth with their main providers – the highest for many years. So an element of this fall is simply wealth managers having fewer client relationships, rather than the industry having fewer clients.

Encouragingly, for an industry charged with managing clients' wealth, assets under management (AUM) at the end of 2012 were significantly higher than a year ago. A like-for-like analysis shows that AUM was up 10 per cent over this period, despite the reported squeeze on client numbers. Returns on assets have been a big driver of this increase, with the average balanced portfolio producing total returns of 9.2 per cent over 2012.

As things stand among providers participating this year, the average client serviced by the industry has £870,000 in wealth. The average adviser, meanwhile, serves 165 clients, a similar level to last year. This second number – the loading of clients on to advisers – is one that is carefully managed by providers to deliver the service levels required.

> One key driver of satisfaction that comes up in our research is client communication

Other things that should be of interest to HNWIs in the results are the minimum portfolio levels required for advisory and discretionary management, which show some subtle shifts, and providers' new RDR classifications – either "restricted" or "independent", although whether these terms mean that much to individual clients remains a moot point.

What many will also examine given the importance of personal contact when it comes to wealth management is office locations. The fact that the industry has expanded its office network since last year is unquestionably positive. Over the past 12 months there has been a 9 per cent increase in the number of wealth management offices across the UK, with the Midlands and East Anglia and the North West among the many regional beneficiaries.

While these industry numbers are useful in describing the nature of the industry and its transition, they only hint at how successful providers are at servicing their clients. To provide insight into the attitudes of the wealthy, Ledbury regularly conducts large-scale surveys in the UK. Our research among 500 wealthy individuals who make use of a wealth manager or full service investment manager, found a moderate improvement in satisfaction towards their main providers and contacts. This is important for the industry, since it impacts on client retention and share of wallet, and secures referrals and recommendations from clients.

Wealth management offices are springing up throughout the UK Getty

One key driver of satisfaction in our research is client communication and this is particularly relevant in light of changes to the industry and the banker base. Good communication has the ability to influence or frame the perception of all other experiences. It plays a vital role in setting and maintaining expectations, through to smoothing things over when they go awry, and it should be a focus area for the industry during the next 12 months.

Another opportunity for wealth managers is in catering for rising levels of investment optimism among the HNWI population. We've found increases in HNWIs' levels of optimism in the investment environment. This is the time for wealth managers to begin conversations about investing or increasing portfolio exposure to riskier assets with clients, or at least to engage them on what risk actually means to help take some of the fear out of investing and build an appreciation of the opportunities.

Stuart Rutherford is research director of Ledbury Research

Money guide: Private client wealth management

Managers rethink portfolio choices

Passive funds

Disenchantment with stockpicking leads to rapid growth of index trackers and ETFs, writes *Chris Flood*

Growing awareness of the impact of charges on long-term returns for investors means that low-cost index trackers and exchange traded funds (ETFs) are playing an increasingly important role in portfolios run by wealth managers.

"Wealth managers are looking at ETFs and passive funds to keep costs down as they move to fee-based models," says Neil Jamieson, head of UK & Ireland, ETF Securities.

The Investment Management Association reported that assets held by tracker funds in the UK stood at a record £57.4bn at the end of last year. But trackers' share of total funds under management was just 8.7 per cent, suggesting substantial room for growth.

Retail sales of trackers fell 28.6 per cent to £1.5bn last year from a record £2.1bn in 2011.

The drop seems counter-intuitive given the anecdotal evidence of growing interest in passive investment strategies. However, the IMA data covers only open-ended funds and does not include ETFs. UK listed ETFs gathered inflows of £16.2bn in 2012 and have attracted a further £5.7bn so far this year, according to ETFGI, a consultancy.

Jamieson says the speed of the shift is hard to quantify, but disenchantment with stockpicking and an awareness that asset allocation choices are key drivers of returns, are leading wealth managers to implement investment ideas via index funds and ETFs.

"Research teams at wealth managers looked at active managers almost exclusively three or four years ago, whereas virtually all do due diligence on ETF providers and their products," says Jamieson.

The huge range of ETFs and trackers funds means that it is straightforward to build and implement fairly sophisticated asset allocation models that can be readily tweaked if a wealth manager decides that a particular country or sector or even investment style looks appealing at that time.

Gareth Lewis, head of investment management at Bestinvest, says that his company aims to add value through both manager selection and asset allocation decisions in its multi-asset funds.

About 70 to 80 per cent of Bestinvest's assets are still actively managed. But Lewis says Bestinvest prefers tracker funds for asset classes such as US large-cap equities, where it is more challenging for active managers to outperform the benchmark indices.

"We have always used trackers but it is important to have clear views on the underlying investment," says Lewis, noting that Bestinvest would not currently favour using a FTSE 100 tracker given that index's heavy exposure to mining and resources stocks, which are suffering because of weaker growth in the Chinese economy.

So while ETFs and passive funds offer an easy way to drive down charges, investors need to be aware that costs are only one factor in determining overall returns, says Lewis.

David Absolon, investment director at Heartwood, says the choice of ETFs has given wealth managers "a much richer palate" when making tactical investment choices.

Last year, Heartwood opted to buy an ETF that focused on semiconductor makers, because the active managers that it considered would only offer a broad technology sector exposure.

In 2008, active fixed-income managers were reluctant to invest in investment-grade financial bonds even though they were heavily oversold, but Heartwood was able to find an ETF that offered a meaningful exposure to that sub-sector.

"Active strategies are no longer the default choice for wealth managers. The growing range of ETFs that is available makes it much easier to express a far wider range of investment themes than before," says Absolon.

He adds that some clients are not mandated to use derivatives but because ETFs are listed securities, this has effectively allowed Heartwood to take positions in credit default swap markets.

Echoing this point, Jamieson says ETFs have provided wealth managers with access to asset classes, such as commodities and currencies, that were previously much more difficult to access. "ETFs can offer broad exposures to asset classes, such as commodities, as well as very specific themes, say to a metal such as palladium. This is a huge benefit to investors," he says.

Chris Flood is a reporter for FTfm

UK tracker fund assets hit a record £57.4bn last year AP

Bonds cornerstone of wealth preservation

Fixed incomes

In spite of the disappointing yields, alternatives are unappetising, writes *Jonathan Eley*

It was all so easy in the 1990s. With yields on even the safest government debt comfortably north of 5 per cent and inflation subdued, preserving wealth was relatively straightforward. The precise opposite scenario prevails today.

Yields on quality 10-year government bonds have only briefly popped above 2 per cent during the past few years as governments and central banks around the world engage in "financial repression" on a grand scale. Inflation in the UK has been above the Bank of England's 2 per cent target for years, peaking at over 5 per cent in 2011.

"Markets have never been more challenging and asset allocation has never been more difficult," complains Thomas Becket, chief investment officer at Psigma. Robert Farago, head of asset allocation at Schroders Private Bank, adds there "is nothing out there that's screaming to be bought".

Recent volatility in the Treasuries market in particular has invoked some comparisons with 1994, when a sudden and sharp rise in official interest rates prompted a big sell-off in US government bonds and a rise in yields. But most dismiss the comparison, noting that such bolts from the blue are not the style of Ben Bernanke's Federal Reserve. Others note that the high yields of the 1980s, 1990s and early noughties were anomalous when set against longer term trends. Yields on "consols" – the forerunners of gilts – remained at about 3 per cent or less for decades during the 19th and parts of the 20th centuries.

"We expect cash and government bond returns to remain at sub-inflation levels for the coming years," remarks Ed Allen, a partner at Thurleigh. Some think yields could even sink further. "Policy rates should, if anything, be lower, not higher, than they are right now," thinks Robert Jukes, global strategist at Canaccord Genuity Wealth Management. "Despite four years of extraordinary money policy, slow growth and fiscal contraction mean that monetary conditions are nowhere near loose enough."

Alan Higgins, chief investment officer at Coutts, says he is growing increasingly concerned at the prospect of capital losses in government bonds especially. "The low returns from fixed-income this year suggest to us that the 30-year bond bull market has come to an end and we see a less benign stage ahead, which is negative total returns from lower-risk bonds."

Alan Higgins: concern over government bonds

However, the growing concern about bond valuations does not yet seem to be reflected in asset allocation decisions. Our survey of 47 wealth managers found that, on average, allocations to sovereign bonds in balanced portfolios had increased by 2.1 percentage points, and corporate bonds by 1.8 percentage points – mostly at the expense of cash. In the growth portfolios, the increases were 3.9 and 4.6 percentage points respectively.

"We still see a place for sovereign bonds as 'insurance' within a client portfolio, although we have reduced these weightings compared to last year," says Hills, while at Canaccord, Jukes agrees, saying that gilts and investment-grade corporate bonds "offer the lowest cost risk mitigation strategy for multi-asset portfolios".

The alternatives are not much more appetising, especially for those who think inflation may become more of a problem in the future. The obvious defence against rising prices, index-linked government bonds, have been in high demand for some time and trade at rich prices.

"Detractors of index-linked gilts point to their negative real yields, but these are a function of the desire of investors to buy certainty, and for pension advisers to match assets to future liabilities," says Peter Botham, chief investment officer at Brown Shipley. "This is a trend which is unlikely to reverse."

Higgins says investors need to reassess their priorities. "It will be crucial for investors to find new ways to manage risk in their pursuit of yield," he says, suggesting corporate bonds, absolute return strategies and floating-rate or inflation-linked securities. Psigma's Becket agrees: "Inflation-linked corporate bonds, asset backed securities and floating rate notes all provide some protection against rising inflation and interest rate hikes. Investors would do well to protect against these risks while insurance is still moderately priced," he says.

Some are also looking at real estate. In contrast to residential real estate and other asset classes, commercial property has not enjoyed such a dramatic rebound, especially outside the capital. The IPD UK All property index is up 2.8 per cent over the year to April 30, with the best-performing sub-sector – offices – up by 4.7 per cent. That's far less than the 16.6 per cent gains posted by equities over the same timeframe, or the 6.1 per cent gain for bonds.

The alternatives are unappetising for those who think inflation may become a problem

"We are presently debating the merits of adding to our commercial property exposure for the first time in many years," says Hills at Investec Wealth. "We believe the concerns about tenant demand and potential supply overhangs are now pretty well priced into asset values outside the prime areas of central London."

Growing interest in real estate is reflected in the performance of the quoted sector. The FTSE real estate sub-index, which includes companies such as British Land, Hammerson and Land Securities, has risen by almost a quarter over the past year, slightly ahead of the 20 per cent rise posted by the FTSE All-Share index. However, the average exposure to property in balanced portfolios remains slim at 4.6 per cent, while in growth portfolios it was smaller still, at 4.4 per cent.

Structured products, absolute return strategies and infrastructure vehicles are other alternatives. For the first time this year, we asked respondents to provide details of other asset classes in portfolios.

Of the 29 firms who did so, 11 specifically mentioned infrastructure-related products. These provide a degree of inflation protection, since their revenues are often linked to retail price inflation, and reasonable yields. But big quoted infrastructure trusts tend to trade at premiums to net asset value, reflecting their popularity.

Equities may have looked a strong bet for the first few months of 2013, but the recent pullback has served to remind investors of their chief drawback: volatility. Shares don't offer cast-iron protection against inflation, but the tendency for dividends to rise in line with inflation or even outpace it is useful for portfolio managers. Hills points out that dividends in the UK have grown by 65 per cent since the peak in share prices at the end of 1999, and market forecasts are for them to rise by a further 6-7 per cent in each of the next two years.

Botham suggests that portfolios based on strongly cash generative companies with yields of 3 per cent of more and the prospect of rising dividends in the future "will be able to cope with the need to preserve client wealth". Such companies tend to be large and concentrated in defensive sectors such as utilities, consumer goods, tobacco and pharmaceuticals.

Investment allocation

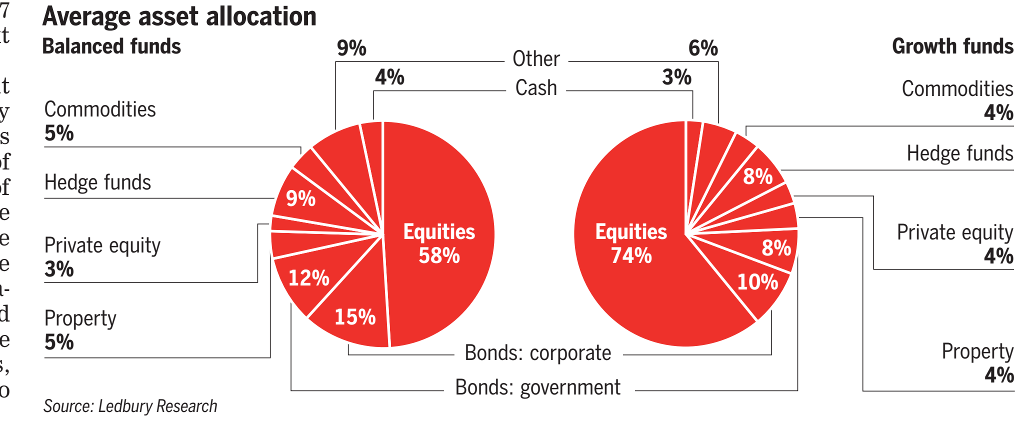
Current asset allocation of the average balanced portfolio invested on behalf of UK private clients (%)

Organisation	Cash	Equities	Bonds: Corporate	Bonds: Government	Property	Private Equity	Hedge Funds	Commods	Other
Adam & Company	2	78	5	7	3				5
Arbuthnot Latham & Co., Limited	1	70	9				15.5	4.5	
Ashcourt Rowan	2	60	15	4	3	2	10		4
Berry Asset Management PLC	1	60		12	5			6	16
Brooks Macdonald Asset Management	10	38	28		6		8	3	7
Brown Shipley	5	58	4	5	4		11	3	10
C. Hoare & Co.	1	58	14.6	6.5	5.1		7.4	3.1	4.3
Canaccord Genuity Wealth Management	2.9	66.7	8	11.9			4.3	4.3	1.9
Cazenove Capital Management	7.5	45.5	20	10			12		5
Charles Stanley Group PLC	5.6	83.4	3.7	5.3				2	
Citi International Personal Bank, UK		45	25	22	8				
City Asset Management Plc	2	61.5	15.5	4			17		
Coutts	1.5	50.5	10	12	5		9	5	7
Dart Capital	2.5	53	21.2	9.5	5		8.8		
Duncan Lawrie Private Banking		62	22	3	3		5		5
Equilibrium Asset Management	7	55	25		5				8
GHC Capital Markets Limited		65	20		5			10	
Greystone Financial Services	2	76	17						5
Heartwood Investment Management	8.4	58.7	8.1	11.6	8.7		4.5		
Ingenious Asset Management	1	51.5	7	24.1	5			2.6	8.8
Investec Wealth & Investment	3	68	8	10.5	2.5		4		4
Investment Quorum Ltd	2	65						8	25
J.P. Morgan Private Bank	6	35	5	6	3	5	21	3	16
Jupiter Asset Management	2.6	72.9	19.6					4.9	
Killik & Co		75	14		3		5	3	
Kleinwort Benson	11	46	10	11	3	2	10	7	
Lombard Odier & Cie.	11.5	35	15	15			8	6.5	9
London & Capital Asset Management Ltd		35	50				10	5	
McInroy & Wood Ltd		75		25					
NW Brown									
Psigma Investment Management	7.5	47.5	17.5	5				7.5	15
Quilter Cheviot	3	74.5	15				5		2.5
Rathbone Investment Management		70	2	10	2		2	2	12
RBC Wealth Management	2.4	35.2	10.4	16	3.2		10.4	2.4	20
Redmayne-Bentley	2	83	15						
Rothschild	9.8	55.1		15.5	1	2.5	11.9	4.1	0.1
Ruffer LLP	4	48		27			1	6	14
Saunderson House Limited	3	62	15	10	10				
Schroders Private Banking	2.8	46.5	8.4	12.3	5.3		14.8	4.1	5.8
Seven Investment Management	2	49.1	16	18.1	4	1.5	4.8		4.5
SGPB Hambros	2	50	17.5	8.5	5			4	13
Smith & Williamson	3	73	8	9					7
Thurleigh Investment Managers	2	51	37				10		
Towry	0.2	56	4.5	4.1	8.9			1.9	24.4
UBS	5.78	52.22	18.3	23.7					
Vestra Wealth		57	21	7	2		9	4	
Walker Crips	1.4	51.2	15	10	5		5	7.4	5
Average	3.9	57.9	15.1	11.5	4.6	2.6	8.7	4.6	9.1
Max	11.5	83.4	50	27	10	5	21	10	25
Min	0.2	35	2	3	1	1.5	1	1.9	0.1

Current asset allocation of the average capital growth portfolio invested on behalf of UK private clients (%)

Organisation	Cash	Equities	Bonds: Corporate	Bonds: Government	Property	Private Equity	Hedge Funds	Commods	Other
Adam & Company	2	95			3				
Arbuthnot Latham & Co., Limited	1	82					12.5	4.5	
Ashcourt Rowan	2	73.5			5	2.5	13		4
Berry Asset Management PLC		97						3	
Brooks Macdonald Asset Management	7	58	17		4		6	3	5
Brown Shipley	5	80		5			7	3	
C. Hoare & Co.	1.3	94					1.9		2.8
Canaccord Genuity Wealth Management	2.6	77.7		8.6			5	4.1	2
Cazenove Capital Management	8	65.5	10	5			7.5		4
Charles Stanley Group PLC									
Citi International Personal Bank, UK		59	20	11	10				
City Asset Management Plc	2	83	7				8		
Coutts	1	73.5	2.5		2		8	4	9
Dart Capital	3.5	78	9.5	3.5	2.5		3		
Duncan Lawrie Private Banking		76	14				7		3
Equilibrium Asset Management	5	80	10		2				3
GHC Capital Markets Limited		65	20		5			10	
Greystone Financial Services	2	94							4
Heartwood Investment Management	5	81.6	4.9		8.5				
Ingenious Asset Management	0.9	67.1	3	12.6	5			2.6	8.8
Investec Wealth & Investment		75	4.5	8	2.5		6		4
Investment Quorum Ltd	2	83						10	5
J.P. Morgan Private Bank	2	55	0	3	4	8	18	5	5
Jupiter Asset Management	1.5	87.3	6.9					4.3	
Killik & Co		85	3		3	3	3	3	
Kleinwort Benson	5	80	6	7				2	
Lombard Odier & Cie.									
London & Capital Asset Management Ltd		30	50				10	10	
McInroy & Wood Ltd		75		25					
NW Brown									
Psigma Investment Management	2.5	62.5	12.5					10	12.5
Quilter Cheviot	2.5	87.5	2.5				7.5		
Rathbone Investment Management		84		5			3	2	6
RBC Wealth Management	2.6	45	6.8	9.3	3.4		12.8	5.1	15
Redmayne-Bentley									
Rothschild	8.7	66		5	1.3	2.9	12.7	3.3	0.1
Ruffer LLP									
Saunderson House Limited		75	8	6	11				
Schroders Private Banking	1.6	67.8	1	5.4	4.2		14.3	2.8	2.9
Seven Investment Management	2	70.5	5.2	9.6	3	2.9	4.1		2.7
SGPB Hambros	4.5	81.5	5				7	2	
Smith & Williamson	2	81	5	5					7
Thurleigh Investment Managers	2	51	37				10		
Towry	0.1	63.2	2.3	2.2	6.5			1.9	23.8
UBS	5.19	71.47	10.17	13.17					
Vestra Wealth		78	11				8	3	
Walker Crips	0.5	90			2		2	3.5	2
Average	3.0	74.4	10.2	7.9	4.4	3.9	7.9	4.4	6.0
Max	8.7	97	50	25	11	8	18	10	23.8
Min	0.1	30	0	2.2	1.3	2.5	1.9	1.9	0.1

Average asset allocation



Source: Ledbury Research

Doubts about gold

One asset class that does not seem to have made much ground in portfolios, despite growing doubts about bonds, is gold, *writes Jonathan Eley*. Of the 47 wealth management firms surveyed, none had more than 10 per cent exposure to commodities in general, while only one mentioned gold by name when invited to provide details of "other assets" held.

"There is a strategic case for gold, in the sense that governments in the west are heavily in debt and are unlikely to be able to grow out of it. And gold is a good hedge against monetary instability. But from a tactical perspective, the big risks we faced last year – things like the 'fiscal cliff' and a eurozone break-up – have been managed," says Robert Farago at Schroders.

There is also the issue of price. Gold rose from below $300 an ounce at the start of the noughties to a peak of $1,800 an ounce in 2011, but this year has seen a correction.

"We think the equilibrium value of gold is around $800 an ounce, so at current prices you're still paying a big premium for insurance," says Farago, who adds that Schroders' own allocations to the yellow metal have varied from 5 per cent to 10 per cent. "To own more than that you'd have to have a very different view about where things are heading."

Money guide: Private client wealth management

Investors increasingly look to alternatives

Diversifying

Art, wine, property and infrastructure funds are growing in popularity, says *Lucy Warwick-Ching*

From fine art to classic cars, infrastructure and vintage wine, alternatives are gaining traction Bloomberg, Getty

Wealth management companies have increased their holdings in alternative investments as a way of diversifying client portfolios in ever more challenging markets.

Managers say alternative investing – including collectables such as stamps, coins, art, wine and classic cars – has grown popular as returns from equities have stalled and concerns have grown about the world financial system.

In times of economic uncertainty there is often increased demand for such rare physical assets.

The Towers Watson Global Alternatives Survey 2012, which analyses the alternative investment market, shows total assets under management among the companies it tracks at $3.87tn. The largest investment managers control more than £3tn of those assets. Much of this total is made up of real estate, private equity, hedge funds, infrastructure and commodities, but it also includes more esoteric assets.

This year's FT survey of wealth managers also supports this. In its balanced portfolios, Towry increased holdings in alternatives – which included unregulated collective investment schemes (Ucis) – from 22.9 per cent last year to 24.4 per cent today. Société Générale Private Bank also increased its holdings in alternatives, from 6 per cent last year to 13 per cent, boosted by growth in infrastructure holdings.

"Investors have turned to alternatives as the trading environment has made achieving diversification with traditional investments much harder," says George King, head of portfolio strategy at RBC Wealth Management. "This has resulted in large part from monetary and policy intervention."

Tom Becket, chief investment officer at Psigma Investment Management, says Psigma has a maximum weighting in alternatives across their investment strategies to ensure it can protect client portfolios. "Alternatives have become extremely important in modern asset allocation and provide investors with the ability to reduce risk and maximise the opportunities in global financial markets," he says.

Coutts, the private bank, has also seen a significant increase in wealthy individuals seeking alternative assets, such as art, as part of their portfolios. "A few years ago clients just wanted equities and bonds but they now want a wide distribution of assets," says Alan Higgins, chief investment officer at Coutts.

Another growth area for wealth management companies is infrastructure. Here, the success or failure of a fund relies heavily on government spending, but the sector is largely seen to be stable and have a lower risk than traditional equities.

Chris Hills, chief investment officer at Investec Wealth & Investment, says: "Infrastructure funds are providing a welcome source of income for investors and we expect the sector to continue to perform solidly over 2013."

Investec has increased clients' exposure to infrastructure funds by £40m over the past 12 months and is one of the largest shareholders in four of the largest publicly quoted vehicles – GCP Infrastructure, International Public Partnerships, John Laing Infrastructure and HICL Infrastructure.

Another popular asset class is property. It is possible to buy into open-ended funds that invest in direct property or in company shares, while real estate investment trusts (Reits) also allow investment into direct or indirect holdings.

But demand for property is changing with some wealth managers reporting a rise in clients wanting to own property directly.

Mohammad Syed, head of strategic solutions at Coutts, says: "Over the past year, one growth area has been in direct investment opportunities. For those clients interested in clubbing together and buying a property we will often source that property and act as a bridge between the client and the seller of the asset."

Other wealth managers like hedge funds as a diversifier for client portfolios. Iain Tait, partner at private investment office London & Capital, says: "Hedge funds and private equity can be a very useful tool when diversifying a portfolio.

"Typically, these funds are used for downside protection, rather than to enhance returns, which further de-correlates them from the wider markets."

But not everyone is keen on alternative assets. Some experts warn would-be investors to look very carefully at where the returns are coming from – and what they hope to gain – before committing to any product that invests in non-mainstream assets.

"While the lure of alternative investments can be strong, they are very often promoted with the promise of high returns, but in times of difficulties, real issues arise for investors," warns Lee Robertson, at financial advice group Investment Quorum. "These can include 'gating', or the locking in of invested capital, illiquidity, dramatically falling underlying capital values and issues raised by lots of investors rushing for the doors when they anticipate problems."

Who's best at minding your money?

Awards

Rosie Carr reveals the winners in the IC/FT Wealth Management Awards

Wealth management is a tricky industry to judge. There is lots of secrecy on all sides. Few of us are inclined to reveal how much we earn, let alone how much we invest, where we stash that money and what returns we make.

On the other side, the wealth managers who look after our money can be just as tight-lipped when it comes to discussing the gains (if any) they have delivered and how they have achieved them. Spilling the beans leaves them open to the risk they could look worse than useless or, in the opposite direction, that success could trigger copycat strategies. But this veil of secrecy over the industry makes choosing a wealth manager a rather tricky business, where word of mouth recommendations are heavily relied upon.

The IC/FT Wealth Management Awards are a sort of giant word of mouth exercise. For the past six years we have asked readers, via surveys in both publications and online, to say who they use for various services – such as investment and tax advice, will writing, setting up trusts – and then to rate them by giving scores for financial performance, trustworthiness, range of solutions, competence, communication and the costs or the fees paid.

IC/FT Wealth Management Awards

Award	Winner
Wealth manager of the year	BestInvest
Best wealth manager for investments	Bestinvest
Best wealth manager for alternative investments	Killik & Co
Best wealth manager for tax efficient investments	St. James's Place Wealth Management
Best wealth manager for tax advice	Chantrey Vellacott DFK
Best wealth manager for inheritance tax and succession planning	Charles Stanley & Co
Best wealth manager for trusts	Rothschild Wealth Management
Best balanced wealth manager	Aberdeen Asset Management
Best growth wealth manager	McInroy & Wood
Best cautious wealth manager	Matterley
Best income wealth manager	Rathbone Unit Trust Management Limited
Best wealth manager for charities	Royal London Asset Management
Best UK private bank	SGPB Hambros
Best global private bank	HSBC

Source: FT/Investors Chronicle

The survey appeared in FT Money and we used readers' votes, with analysis by a panel of judges, and number crunching by Asset Risk Consultants, to decide the winners.

Bestinvest, which caters for investors who want to manage their own money and those seeking advice and an expert pair of hands, was voted best wealth manager of 2013, and best wealth manager for investments. Bestinvest clients rate it highly for performance, customer service, cost and competence. Customer satisfaction is a factor in its growth – in the three decades since it was founded, Bestinvest has become a source of advice for more than 50,000 clients. Voters also scored stockbroker Killik & Co highly for all-round excellence in our alternative investments category. Its focus is on broking services, alongside full discretionary management, and it operates a branch network, so clients can have face-to-face discussions with brokers.

Four award categories relate to tax efficiency matters. St James Place was recognised as offering excellent solutions, while Chantrey Vellacott, one of the oldest firms of chartered accountants in the UK and a tax advice specialist, was rated top for its efforts to provide tax solutions which take account of the individual's personal circumstances and future plans. Charles Stanley, which boasts an experienced inheritance tax team, won the award for inheritance tax and succession planning. The final tax award went to Rothschilds for exemplary skills in the area of trusts. These are not as straightforward as they once were when it comes to withstanding tax assaults and getting them right from the outset is crucial.

Four awards are based solely on performance data and an assessment of management strategy by Asset Risk Consultants. Aberdeen, McInroy & Wood, Matterley and Rathbone all won following inspections of their efforts to achieve the optimum results for their clients through active portfolio management.

One final area of the awards deserves a mention. Our two private banking awards pay homage to providers who allow us to access our money however, wherever and whenever we want it, while keeping it secure and safe, and if possible, earning a return. The voters and panel agreed: both SGPB Hambros and HSBC do a superb job.

Rosie Carr is deputy editor of Investors Chronicle

Inflation and eurozone top list of worries

Outlook

There is plenty to keep wealth managers awake at night, warns *Jonathan Eley*

On May 22, Federal Reserve chairman Ben Bernanke told a congressional committee that if labour market data showed signs of consistent improvement, the Fed might scale back its purchases of mortgage bonds and US government bonds, currently running at 85 per cent.

Over the next few days, the S&P 500 index fell 7 per cent, and other markets fell by more; Japan's Nikkei 225 dropped by that much in a single day. It served as a preview of what a market not supported by central bank money creation might look like.

Dan Morris, a strategist at JPMorgan, thinks the US stock index could fall by about 10 per cent once quantitative easing ends, based on falls of 13 per cent after the first bout of quantative easing ended and 14 per cent after the second bout, which finished in summer 2011. "But there are enough other factors supporting equity markets to believe that any retrenchment will be followed by renewed, albeit slower, price appreciation."

Chris Wyllie, chief investment officer at family office Iveagh, thinks the testimony should shake some complacency out of markets. "The QE gravy train has pretty much reached its destination, and markets should price in a risk premium for a little more uncertainty.

"My hunch is that this is exactly what Ben Bernanke was seeking to impart, in his Delphic way."

Kevin Gardiner, chief investment officer for Europe at Barclays Wealth, is more relaxed, saying that the average US consumer is in better financial health than commonly believed. "We doubt QE will be 'tapered' imminently, and interest rate rises are still on the far side of the forecast horizon," he adds in the latest edition of the bank's client newsletter.

That may be why the end of unorthodox monetary policy is not top of the list of what worries wealth managers. In our survey, 20 companies said it was a concern. But 27 said further trouble in the eurozone was a major concern, more than for any other risk factor.

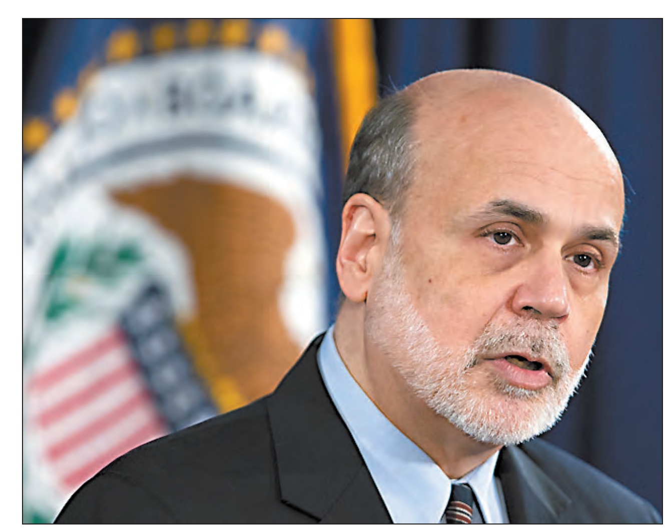
Economic conditions in the eurozone remain undeniably challenging, with even the continent's strongest economies showing signs of a slowdown, and unemployment at historic highs. Many also think that eurozone banks may need to make further capital calls, while the future of European monetary union is also still undecided – and may come into sharper focus after the German federal election in September.

'The QE gravy train has reached its destination, and markets should price in a risk premium'

However, strategists at Killik & Co think this information is already factored into investors' positioning and decision-making. "Sustained indications of the slowing of post-financial crisis deleveraging, credit growth turning positive and a bottoming of the inventory cycle, could have a large impact on valuations," says Mick Gilligan, Killik's head of research.

Perhaps unsurprisingly for an industry mandated to preserve wealth, inflation is also a major concern – although the threat from rising prices seems more hypothetical than real at the moment. The Bank of England's economists believe consumer price inflation will remain above 2 per cent for much of the next two years, but fall towards that level subsequently. The "fan charts" in their latest Inflation Report ascribe a 60 per cent probability of inflation lying between around 0.8 per cent and 3.2 per cent for much of 2015 and 2016. Inflation in the US is, if anything, even more subdued.

China is another potential source of trouble. Recent economic data from Beijing has suggested that the economy is shifting to a lower rate of growth driven more by internal consumer demand than exports and investment in fixed assets. As emerging markets expert Jim O'Neill recently told an FT Money investor round table, that's good news for consumer brands such as Nestlé and Samsung, but less positive for big mining groups – which constitute a big chunk of the FTSE 100 index.



QE threat: Fed chairman Ben Bernanke AP

Money guide: Private client wealth management

Services

Organisation	UK offices	UK advisers	Joined in 2012	Clients	Advisory AUM £m	Discretionary AUM £m	Products/services used	RDR classification	Hourly rate?	Discretionary Investment Management	Advisory Investment 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	16	0	1,500		1,300	Entire market	Restricted	No	X				X	X	X	X	X	X	X	X	X	X	X		
Arbuthnot Latham & Co	2	28	7	3,750	250	385	Entire market	Independent	Yes	X	X	X	X	X	X	X	X	X		X	X	X		X	X	
Ashcourt Rowan	13	81	6	50,500	191	1,592	Entire market	Independent	Yes	X	X		X	X	X	X	X	X						X	X	
Berry Asset Management	1	6	0	684	1	671	Entire market	Restricted	No	X														X	X	
Brooks Macdonald Asset Management	9	76	4	11,500	4,273	357	Entire market	Restricted	No	X	X	X												X	X	
Brown Shipley	5	49	5	11,000	314	2,342	Entire market	Restricted	No	X	X			X	X		X	X			X			X		X
C. Hoare & Co.	2	14	1	1,400	-	1,130	Entire market	Independent	Yes	X						X	X	X	X		X		X	X	X	
Canaccord Genuity Wealth Management	4	131	20	12,901	6,145	3,309	Entire market	Restricted	Yes	X	X	X			X	X	X	X						X	X	
Cazenove Capital Management	5	69	0	c. 3,500 families		9,000	Entire market	Independent	No	X			X	X	X	X	X	X						X	X	
Charles Stanley Group	33	550	25	75,000	5,220	5,730	Entire market	Restricted	No	X	X	X					X	X						X		
Citi International Personal Bank, UK	2	49	12	10,000	2,540	-	Selected universe	Restricted	No		X	X									X					
City Asset Management	2	11	0	1,400	2	350	Entire market	Restricted	Yes	X						X	X	X	X							
Coutts	30	346	12	76,500	-	-	Selected universe	Restricted	Yes	X	X		X	X	X	X	X	X	X	X	X	X		X	X	X
Dart Capital	1	3	0	220		225	Entire market	Restricted	No	X								X								
Duncan Lawrie Private Banking	4	25	1	4,000	35	672	Entire market	Restricted	Yes	X						X	X	X			X		X		X	
Equilibrium Asset Management	3	4	0	520	10	220	Entire market	Independent	No	X	X					X	X	X								
GHC Capital Markets	2	5	0	2,741	37	307	Entire market	Restricted	No	X	X	X														
Greystone Financial Services	2	18	1	5,800	738	229	Entire market	Independent	No	X	X					X	X	X		X				X	X	
Heartwood Investment Management	2	16	1	2,242	1,237		Entire market	Restricted	Yes	X						X	X	X	X					X		
Ingenious Asset Management	1	9	1	1,500	-	1,001	Entire market	Restricted	No	X														X		
Investec Wealth & Investment	15	252	10	50,000	5,644	15,006	Entire market	Restricted	No	X	X						X	X						X	X	
Investment Quorum	1	4	1	902	51	97	Entire market	Independent	Yes	X	X					X	X	X		X		X		X	X	
J.P. Morgan Private Bank	1	74	16	n/a	n/a	n/a	Entire market	Restricted	No	X	X	X	X	X	X		X		X			X	X	X	X	
Jupiter Asset Management	1	12	0	1,600	1,615	273	Entire market	Restricted	No	X	X															
Killik & Co	10	81	7	21,102	2,283	524	Entire market	Restricted	Yes	X	X	X		X	X	X	X	X	X				X	X	X	X
Kleinwort Benson	6	29	6				Entire market	Restricted	Yes	X	X		X	X	X		X	X			X	X	X	X	X	
Lombard Odier & Cie.	1	10	1				Entire market	Restricted	No	X	X															
London & Capital Asset Management	1	30	4	500	230	1,395	Entire market	Restricted	No	X	X			X	X		X	X							X	
McInroy & Wood	2	6	0	500		760	In-house only	Restricted	No	X																
NW Brown	2	14	3	2,000	300	500	Entire market	Independent	Yes	X	X							X		X		X				
Psigma Investment Management	2	14	1	2,690		1,393	Entire market	Restricted	Yes	X																
Quilter Cheviot	12	169	9	30,500	1,300	11,100	Entire market	Restricted	No	X	X	X	X	X	X									X	X	
Rathbone Investment Management	14	217	18	31,936	1,086	16,098	Entire market	Restricted	No																	
RBC Wealth Management	8	104	32	1,854	2,182	1,454	Entire market	Restricted	No	X	X		X	X	X	X	X	X	X		X	X	X	X	X	
Redmayne-Bentley	38	97	4	50,000	571	591	Entire market	Restricted	No	X	X	X												X		
Rothschild	1	35	3	1,188	880	3,540	Entire market	Restricted	No	X	X		X	X	X	X	X		X	X	X	X	X	X	X	
Ruffer LLP	2	26	0	5,060	-	4,929	Entire market	Other		X																
Saunderson House Limited	1	29	0	1,332	2,772	-	Entire market	Independent	Yes		X					X	X	X	X	X					X	
Schroders Private Banking	1	23	0	836	185	3,152	Entire market	Restricted	No	X	X										X			X		
Seven Investment Management	2	21	4	3,800	1,247	1,585	Entire market	Other	No	X	X										X			X		
SGPB Hambros	8	80	3	5,821	-	-	Entire market	Restricted	No	X	X	X	X	X	X	X	X	X			X	X	X	X	X	X
Smith & Williamson	6	177	13	15,500	3,256	9,767	Entire market	Restricted	No	X	X	X	X	X	X	X	X	X	X		X		X	X	X	
Thurleigh Investment Managers	1	7	1	100		280	Entire market	Restricted	No	X																
Towry	18	138	18	25,000		4,773	Entire market	Restricted	Yes	X						X	X	X						X		
UBS	7	222	22				Selected Universe	Restricted	No	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
Vestra Wealth	2	31	9	5,400	808	2,192	Entire market	Restricted	No	X	X	X	X	X	X	X	X	X						X	X	
Walker Crips	12	95	17	5,400	530	350	Entire market	Both*	Yes	X	X	X	X	X	X	X	X	X								
Totals										44	32	15	14	18	19	23	29	29	12	9	15	11	11	30	24	4
% offering services										94	68	32	30	38	40	49	62	62	26	19	32	23	23	64	51	9

Money guide: Private client wealth management

RDR – more of a whimper than a bang?

Regulation

Despite all the hype, most clients have noticed little change, reports *Elaine Moore*

As the deadline for the retail distribution review (RDR) loomed at the end of last year there were plenty of gloomy industry predictions about the impact the new rules would have.

Changing the way consumers receive and pay for financial advice would leave a million "orphaned" clients no longer able to afford professional help as well as hundreds of independent financial advisers forced to retire or find a new profession, according to some analysts.

The reality has been far less dramatic.

In a survey of wealthy clients conducted for the FT, most respondents say they have not noticed a difference in the advice they receive since the new regime started on the last day of 2012.

Some also seem unaware that the way they pay for advice has changed.

In fact, the rules, heralded as the biggest shake-up of financial services since the "big bang" deregulation of the City in 1986, have put an end to covert fees and charges and introduced a new standard of professionalism in the industry.

Linda Woodall of former regulator, the Financial Services Authority, said at the time of its introduction that RDR would make consumers "more confident about getting advice", ensuring that investors understood exactly what they were paying for and improving the overall standard of advice in the financial services industry.

Some organisations, notably high street banks, have opted out of advice entirely as a result of the change, deciding that compliance is too expensive. Others have raised their minimum investment levels for clients, in order to balance their books now that they can no longer accept commissions from product providers.

Matthew Parden, managing director at Duncan Lawrie Private Bank, says that although the way that advice is packaged has become more transparent in the wake of RDR, not much else has changed.

The cost of advice remains comparable and those providers that have always been focused on unbiased and transparent advice will have been broadly unaffected, he adds.

Many in the wealth management sector bristle at the inference that they were providing inferior advice before the new rules, but others are questioning whether the review has gone far enough.

In addition to making fees explicit and setting new minimum exam requirements, RDR has introduced a new way of classifying advisers as either "independent" or "restricted", depending on the extent of their advice.

Before the review, the regulator expected most advisers to remain independent and work to meet the necessary requirements to advise across the whole market. However, in the FT's 2013 survey, just nine organisations out of 47 call themselves "independent". Restricted advisers say their status doesn't concern clients and so meeting the regulator's definition of independence makes no sense.

"We have worked hard with our clients to ensure that they clearly understand exactly what the term 'restricted' means," says Tom Street, executive director at Investec Wealth & Investment.

"Clients come to us for a specialist investment management service which is exactly what they receive. In this respect we have seen no disruption or loss of clients due to RDR and they have told us they are comfortable with the term 'restricted'."

However, Paul Taylor, founder and managing director of McCarthy Taylor, thinks the wealth management industry and regulator need to rethink the terms, as "restricted" remains too broad.

"Making a clear distinction between advice and selling products, and ensuring those that sell products are forced to be absolutely clear about their status, would be a huge benefit to clients in their understanding of the service they can expect from their adviser," he argues.

Few know how much they pay

More than one in 10 wealthy investors have no idea how they pay for financial advice and many more assume that they are paying nothing for the advice they receive, according to new research, *writes Elaine Moore*.

A poll by Ledbury Research of 200 clients who use a private bank or wealth manager and who have more than £1m to invest, also found that the number who pay a fee based on the profits they make has fallen in the past year, in spite of the fact that this is the way that most investors would like to pay for advice.

Instead, close to 20 per cent of those asked paid a fixed annual charge to their adviser, and more than a quarter paid a fee based on the amount they had invested. There was a slight increase in the number who pay an hourly charge, but in total this accounts for just 12 per cent of those questioned, up from 8 per cent in 2012.

Money guide: Private client wealth management

Clients, assets and fees

		Min. portfolio size £k		Annual fee tariff (%)							
Organisation	% of discretionary funds invested in in-house funds	Advisory	Discretionary	£100k	£250k	£500k	£1m	£3m	£5m	Minimum fee (if applicable)	Additional information
Adam & Company	2		250	1.25	1.25	1.25	1.13	0.88	0.73	£2,000	
Arbuthnot Latham & Co., Limited	0	-	250	1.25	1.25	1.25	1.25	0.96	0.88	£3,000	Product trail commissions rebated to clients. No transaction charges levied. LSE membership limits third party costs.
Ashcourt Rowan	0.3	150	150	1.5	1.5	1.38	1.88	0.89	0.84	£1,500	Discretionary service is charged on a tiered bases: 1.5% on first £250k, 1.25% on assets £250k-500k, 1% on assets £500k-1m, 0.75% on assets thereafter. Plus administrative charges
Berry Asset Management PLC	0	250	250	1	1	1	1	0.75	0.57	£3,000	
Brooks Macdonald Asset Management	3	200	200								Available on application, but starting from 0.75% per annum + VAT depending on size and mandate. Dealing charges may apply.
Brown Shipley	5.2		500	0.75	0.75	0.75	0.5	0.5	0.50	£1,500 per annum	Dealing charge: £50 on the first £500 of transactions 1.65% on the next £9,500, 0.50% thereafter
C. Hoare & Co.	0		500	1.5	1.5	1.25	1	1	0.9		Reduced fees for charities, direct bond portfolios and larger portfolios.
Canaccord Genuity Wealth Management	3	250	250		0.75	0.75	0.75	0.58	0.55	£750	Plus transaction costs (0.85% for first £10k, 0.4% thereafter). We also offer a flat rate of 1.5% on first £1m, 1% on next £2m and 0.6% thereafter, which also incurs a £40 dealing charge per transaction.
Cazenove Capital Management	21		1,000	1	1	1	1	0.5	0.5		1% management fee on first £1 million and 0.5% on excess over £1 million. Plus dealing commission: 1% on first £30k of equities, 0.5% thereafter; 0.75% on first £30k of bonds, 0.25% thereafter
Charles Stanley Group PLC	1.5	-	-								
Citi International Personal Bank, UK	0	65	-								
City Asset Management Plc	2.5		100	1	1	1	0.75	0.5	0.4-0.5	N/A	Plus dealing commissions
Coutts	0	3,000	250								
Dart Capital	0		250	1	1	1	1	0.9	0.5 - 0.9		
Duncan Lawrie Private Banking	0		250	1	1	1	1		1% on the first £1m and 0.5% thereafter		£3m+ - 1% on the first £1m and 0.5% thereafter
Equilibrium Asset Management	0	50	50	1.5	1.5	1.5	1	0.3	0.3		Includes financial and tax planning as well as investment management
GHC Capital Markets Limited	19	100	20	0.75	0.75	0.75	0.75	0.5	0.45	£375	Plus dealing commission of 0.75% per trade
Greystone Financial Services	23	75	1,000	N/D	N/D	N/D	N/D	N/D	N/D		
Heartwood Investment Management	52		500	N/A	N/A	1.5	1.25		1.25% for first £1M, 1% for the next £2M and 0.75% thereafter		No additional charges except in certain circumstances portfolios will be subject to an initial advice fee (£250+VAT if applicable) and an ongoing advice fee (£250 pa +VAT); full details available on request.
Ingenious Asset Management	4		250	1.25	1.25	1.25	1.25	0.75	0.75		1.25% on the first £1m, 0.75% on the next £9m, 0.5% thereafter; dealing charged at £25 per trade
Investec Wealth & Investment	Minimal	100	100	1.25	1.25	1.25	1.25			£1,500	Sliding scale for £3m and £5m portfolios. £3m - 1.25% on first £1m; 1% next £1m; 0.75% next £1m. £5m - 1.25% on first £1m; 1% next £1m; 0.75% next £1m; 0.6% thereafter
Investment Quorum Ltd	0	100	100	1.25	1.25	1.25	1	1	0.75		This includes all switching and transfers. Also institutional or clean share classes used as often as possible. Any retrocessions from retail classes passed directly to client portfolios.
J.P. Morgan Private Bank	n/a	n/a	n/a								
Jupiter Asset Management	25	1,000	500			1.25	1	1% on the first £2m, 0.75% on the balance.	Negotiable		Annual management fee on portfolios £1m and above is 1% on the first £2m, 0.75% thereafter. External commissions and transaction charges passed on
Killik & Co	1	-	100	1	1	0.75	0.5				Fee negotiable above £3m, similarly for £5m and above
Kleinwort Benson	18	1,000	2,000								Sliding scale from 1.05%
Lombard Odier & Cie.	15	1,000	1,000				0.9	0.9	0.9	$2k per quarter	Third party charges at cost.
London & Capital Asset Management Ltd	43		500			1.25	1	0.85	0.75		
McInroy & Wood Ltd	80		10	1.2	1.2	1.2	1.2	1.2	Negotiable	0	All fees quoted are inclusive of VAT.
NW Brown	0	50	250	1	1	1	1	0.75	Negotiable		
Psigma Investment Management	0.9		250								Annual management charge, first £2m 1.25%, next £3m 1.00%, next £5m 0.75%, next £10m 0.50% £20m+ by negotiation. Charges are subject to VAT.
Quilter Cheviot	0	200	200								Available on application
Rathbone Investment Management	2.3	100	100	0.7	0.7	0.3	0.25	0.25	0.25		£100 fixed charge on all accounts, £20 transaction charge on each sale and purchase
RBC Wealth Management	5.9	2,000	400							£5,000 per annum	Separate fee schedule may apply for bespoke and segregated accounts. Individual funds will bear additional costs.
Redmayne-Bentley	0	50	50	0.85	0.85	0.85				£450	Plus dealing commissions and VAT
Rothschild	6	5,000	5,000						From 1%		
Ruffer LLP	42		250								
Saunderson House Limited	0	500	-								Not Applicable as discretionary services not offered
Schroders Private Banking	18	1,000	1,000				1	0.85	0.75		First £2m: 1.00%; next £3m: 0.85%; next £5m: 0.75%; next £10m: 0.65%; thereafter: 0.50%
Seven Investment Management	84		200								Fund charges of 0.9% plus fee tariff for discretionary services: On the first £500,00 - 0.25% fee, on the next £500,00 - 0.1% fee, on the balance over £1million - Nil. And then Family accounts aggregated to produce most beneficial pricing
SGPB Hambros	3	500	500	1.5	1.5	1.5	1.5	1.25	1.00	£7,500	Wrapped fee provided. Clients can opt for either a wrapped fee (covering the cost of advice, dealing fees and custody fees) or an unwrapped version.
Smith & Williamson	7	-	-	1	1	1	1	0.83	0.70		Portfolio exc. Isa annual fee: first £2m 1%, thereafter 0.5%. Commission rates: Fixed interest other than convertible and preference stocks 0.4%. All other investments 0.6%
Thurleigh Investment Managers	100		500			1.25	1.25	1.15	1.00		Thurleigh absorbs the cost of custody, cash transactions and settlement out of their fee.
Towry	100		100	2	1.83	1.49	1.2	0.9	0.84		Implementation charge of 1.5% + VAT for investments in portfolios sub-£250k; 1% implementation fee for portfolios +£250k
UBS	10	1,000	500								
Vestra Wealth	0	500	500	1	1	1	1	1	0.75		
Walker Crips	5	50	20	0.8	0.8	0.8	0.8	0.8	0.80		These are the fees for the actively managed portfolio service. Other services fees will vary.

Money guide: Private client wealth management

Set fees win out over hourly rates

Post-RDR

Industry insiders say that their charging models have undergone a seismic shift, says *Elaine Moore*

What is a fair fee for financial advice? Should the sum depend on how long you spend with a professional? Or on how much money you have? Or how good the advice is?

According to Matthew Parden, managing director at Duncan Lawrie Private Bank, providers subscribe to two main schools of thought on fees: a set sum for advice or a pick and mix selection of fees that depend on the sort of advice required.

Six months into the UK's new regime of transparent pricing and it seems as though the industry has already chosen a winner.

In the FT's 2013 survey of wealth managers, only a handful of providers offered to charge clients an hourly rate. Instead, most levied set fees, linked to the amount invested.

On the face of it, this may not seem all that different to the annual charges that many investors previously paid in investment management fees, part of which were then passed on as commission for advisers.

But Catherine Tillotson, managing partner of Scorpio Partnership, says that the introduction of advice-based fees, and the ban on commission, has led to a seismic shift in the UK wealth management market – even if it's hard to see from the outside.

"The removal of commission means that clients can largely evaluate their charges on a like-for-like basis across business models," she says. "In turn, this introduces direct competition between different kinds of provider: independent financial adviser, private bank, wealth manager."

Michael Morley, chief executive of Coutts, is not so sure. He thinks providers have come to market with different models and definitions of advice, which can be confusing for clients.

Coutts charges an ongoing advice fee, rather than one-off charges, and insists that customers are happy with the system, so long as it is clearly explained.

At London & Capital, another annual fee charger, the firm explains its fees by telling clients that they are buying investment strategies, not just individual financial products. "Effective active investment management requires continuous review and monitoring," says Iain Tait, head of private clients. "Monitoring which can only realistically be provided on a flat fee arrangement."

Clients expect to build a relationship over a number of years, and so ongoing advice is expected, with an ongoing charge for it, says Stuart Cummins, managing director of Barclays Wealth and Investment Management.

"Our bankers talked clients through the industry change and how it would alter the way in which they pay for advice," he says. "During this education process, some clients want detailed explanations of the changes and take the opportunity to review their plans and approach to advice, while others simply want clarity about the impact on them."

St James's Place, which is adamant that it has always been transparent on the fees it charged to clients, points out that just because wealth managers need to agree their fees with clients does not mean that all charges will be explicit.

"The challenge for consumers is that many advisers talk about their own fees in isolation and do not include the annual management charge or the charges made by a platform," says the company. "The key question consumers should be asking is 'what is the total cost of advice and investing?', not 'what is the advice fee?'"

Perhaps it is still too early to tell what the total costs will be. Barclays is just one of the providers questioned which says that it expects to refine and adapt its advice proposition as it gets more feedback from clients.

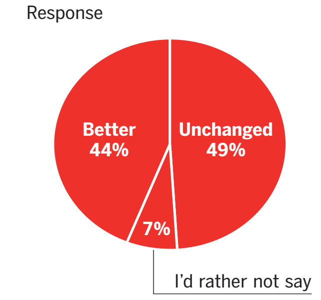
Many wealth managers entered 2013 with an open mind about fees, reports Tillotson at Scorpio, which means there might be re-evaluations on the way as they assess the competition.

"Bear in mind, there is no historical precedent or case study that wealth managers can turn to to see what might happen," she adds. "We are in a situation where they literally have to experience this change and experiment with charging structures until the right formula emerges."

Financial advisers no longer claim commission Alamy

How has the quality of financial advice changed since RDR?

Response



Source: Ledbury Research