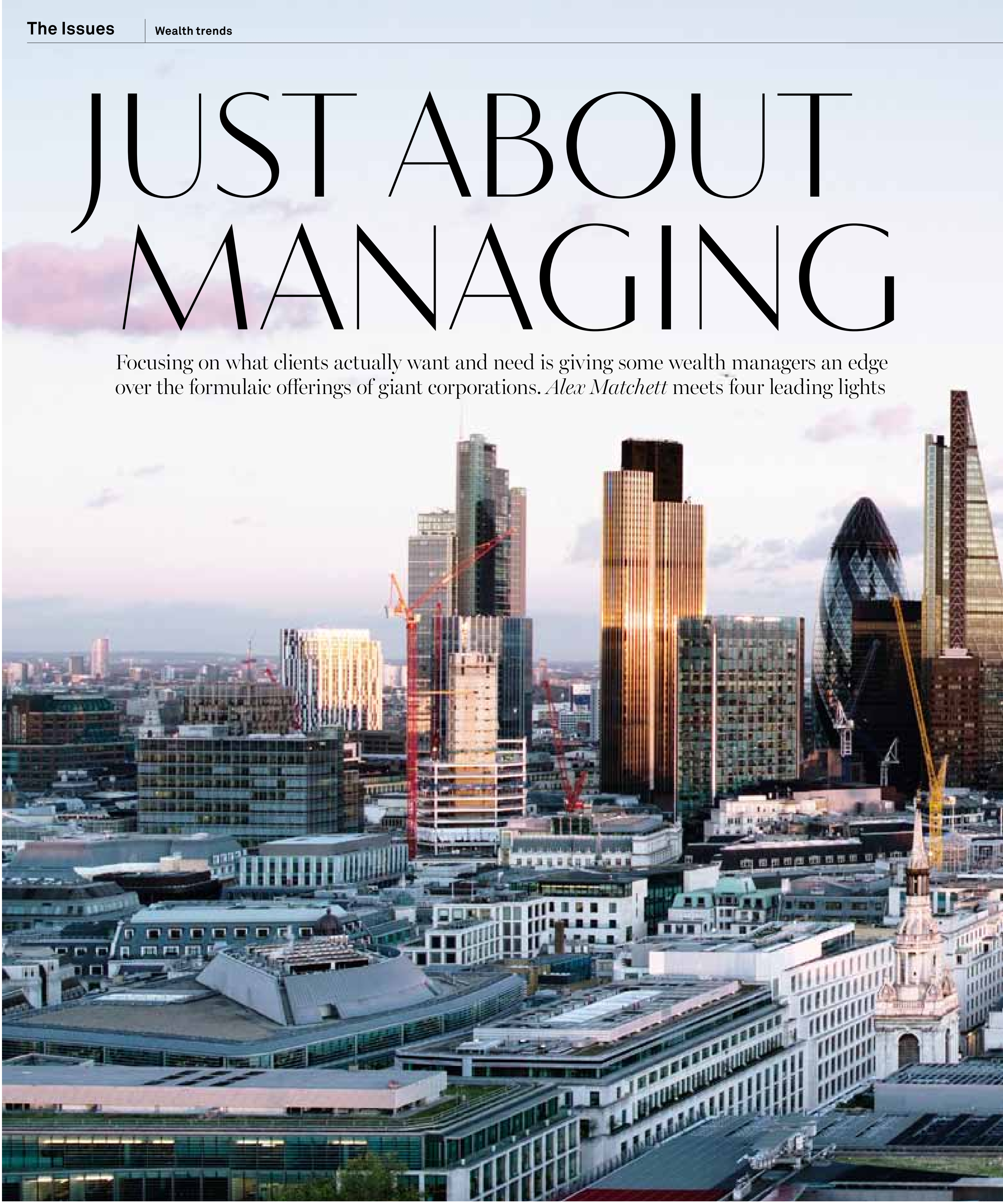
JUST ABOUT MANAGING

Focusing on what clients actually want and need is giving some wealth managers an edge over the formulaic offerings of giant corporations. *Alex Matchett* meets four leading lights



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THE LIGHT CROWNING the glass towers of the Square Mile could mark a new dawn for the quick and the ready – or the fast glare of approaching headlights for the slow and the stiff. The lean and fast-talking wealth managers I sit down with in an unassuming brasserie just off the Strand are decidedly, and unapologetically, the former.

James Sellon of Maseco Private Wealth and Ross Elder of Lincoln Private Investment Office (LPIO) are the New Men. Both are formerly of larger, multinational organisations and now head up their own firms, collecting clients and accolades alike – last year they were both shortlisted by *Spear's* for HNW Wealth Manager of the Year, Sellon eventually winning the award.

Elder started at James Capel, a British stockbroking firm, before moving to Barclays after Capel was swallowed up by HSBC. In 2010 he moved to Berenberg as co-head of UK private banking, and it was there that he says he was asked by clients to go on and do something 'genuinely independent, built by them and putting clients first'. The result is LPIO, a private office owned purely by clients and staff, with the concept of skin in the game and bespoke client service, rather than mass products and disconnected liabilities, at its heart. AuM is undisclosed but currently well over £300 million, and Elder has managed to capture a board featuring a former Cazenove head of global equities and the combined experience of managing north of $20 billion.

Sellon's Maseco was also born of the need to give clients something they couldn't get elsewhere. Starting at Citigroup, he was part of the Smith Barney division there, helping set up the US expat desk. 'They had a strategy of focusing on UHNW clients but weren't interested in the HNW space,' he says. 'So we had the opportunity to walk out and start looking after some of those HNWs we'd previously worked with. It wasn't a huge number, either by clients or

AuM, but it was a change in attitude, and that doesn't happen very often; and I guess we got lucky at the time.'

The forbidding dawn of the financial crisis in 2008 was one of opportunity for Sellon, as institutions looked to cut back and re-evaluate their own economies. Citi's UK-based US clients faced the perfect storm: victims of service cutbacks just as they found themselves in the taxman's crosshairs.

'Josh Matthews [Sellon's co-founder and managing partner at Maseco] and I realised, if we stayed at Citi all our clients were going to sleepwalk into a horrendous tax position. So we tried to create something externally that would solve this tax position. We spoke to everyone on the street – there was no one who was interested in doing what we needed, so we ended up leaving Citi and creating Maseco. It was the only firm at the time who had created a solution for the American expatriot community and, over time, an industry has built up around us, as you would expect.'

Less expected, perhaps, is just how fiercely Sellon fought his clients' corner. While many might have interpreted FATCA as another protocol on which to charge fees, Maseco took a more noble approach: 'We dealt with FATCA and the UK legislation around unregulated collectives, and got the legislation changed for Americans via the FCA. Over the past eight years it has been a case of trying to help the community out – and hopefully clients will follow.' That selfless approach has yielded an AuM of £956 million and approximately 500 client families.

Elder wants new hires to be asking where the next evolution is: 'We need that from our clients as they're transferring judgement and we need that from our hires.' Sellon echoes that and underlines client service, saying they must ask themselves: 'Do they feel emotionally bad when not delivering?'

STAYING POWER

If the next evolution is fleeting, service is permanent – at least for Alexander Hoare, the first of the 11th generation of C Hoare & Co. Down on Fleet Street he shows me round the building that has blended family home and private bank for three centuries: upstairs the maids are decanting the claret and carving the ham beneath the reassurance of a grandfather clock and the oils-rendered sphinx of founder Sir Richard Hoare; downstairs the doorman tells me my collar is up. It's the aesthetic Julian Fellowes would craft for cinema, albeit voided of trite dramas; here they want your money to sleep safely.

We take the lift to a gargantuan drawing room in which Hoare speaks not about increasing AuM, chasing alpha or on-boarding big clients but about straightforward banking services. This 345-year-old 'alternative wealth manager' recently jettisoned its investment dealing and custody division to Canaccord, a sale that followed the jettison of the

£825bn Total assets managed or administered by UK wealth management in 2016

57% Rise in total assets managed or administered in the UK since 2011

£6bn Aggregate turnover in 2016 of UK private banking and wealth management

180 Number of UK wealth management firms, running more than 5.5m portfolios

27,000 Number of people directly employed in wealth management in the UK

GETTY, SOURCE: BBA

bank's wealth management division to Cazenove last year. Why give up such multibillion-pound businesses?

'The wealth management business had grown to £2.4 billion assets under management, with 90 staff and very happy customers,' says Hoare. 'At the same time we have the banking business with £4 billion deposits and another 400 staff, but the problem, post-financial crash, is presented by the world becoming a great deal more complex, driven largely by regulation but also by IT.

'We could have taken on more capital, become a PLC and run both businesses. However, we are in fact a family partnership and the partners' mission is to perpetuate a profitable family business, and to try to grow both businesses while remaining small was impossible.'

That position is perhaps best illustrated by the fact that when organising the sale, the bank's archivist came forward to reveal this was all history repeating itself: C Hoare & Co previously sold its wealth management arm in 1914.

However, the 'banking service for private people' remains inclusive. Hoare will provide you with FX deposits and tax compliance and provide trusteeships, writing and executing wills. He'll also engage your philanthropy in line with the bank's own charitable trust. Additionally there's a calendar of decidedly social events, involving guest speakers such as Sir Tom Stoppard, that provide a sense of clubbable community and allow Hoare to get to know his customers better. 'I noticed after I'd worked here for about ten years that no customer had ever said "when I opened my accounts" – it was always "when I joined the bank",' says Hoare. 'That's the sort of language they use.'

Having worked as an IT consultant, Hoare says he spent ten years advising the bank against going online when the technology was nascent. It has now launched an app which has been well received by clients, and he is optimistic about what fintech can bring to the table. He quotes Bill Gates, saying 'people need banking, they don't need banks', but adds the caveat: 'I think it's a pretty brave rich person that entrusts all their wealth to a website with no physical presence and no human relationship.' However, when it comes to whether fintech will help close the advice gap he is faced with, having sold his bank's wealth management arm, he is less humorous: 'I don't know. Time will tell.'

METRO TICKET

The fintech revolution is undeniable, but the real elephant in the room might be whether it will enhance or detract from the concept of old-fashioned service. At the top of Kingsway sits the headquarters of Metro Bank, where CEO Craig Donaldson is nailing his colours firmly to the mast of the service flagship. That entails many small but important add-ons such as freezing and unfreezing of your card by app: apparently popular with younger sports and perform- »

SCOTT'S JOURNEY INTO THE UNKNOWN

by CHRISTOPHER SILVESTER

Alex Scott, the founder and chairman of Sandaire, describes how the multi-family investment office was born in the Nineties and how its evolution continues

Alex Scott was 35 in 1994 when he faced a challenge that many leaders of mature family businesses have to confront. The business was owned by a family holding company whose 60-odd members were dependent on its dividends, and the question was whether to continue as a 2,000-employee property casualty insurance company in an industry where the business model was changing and risks were increasing, or to to sell up and move on.

Heeding the advice of a non-executive director who was not a family member, he plumped for the latter and used the proceeds from the sale of Provincial Insurance, the business founded by his great-grandfather in 1903, to create a new business with a lower risk profile, which was especially important since the family shareholders would continue to grow in number. Thus was born the multi-family office Sandaire, named after Sand Aire House in Kendal, Cumbria, where the original family business had been headquartered.

'"The critical thing,"' Scott recalls telling the family, '"is we've got to work out whether we are owners of a family business or a family in business. Because if we are the latter, we can move on and do something different." And that really was the genesis of saying, "We're a wider group with a lower risk profile, so we've got to invest these assets like a mini-foundation or even a sizeable foundation."'

At that point Scott had no idea what a family office was. 'One of my [again, non-family] directors said to me, "You need to think about a family » office." And he had a very good network in America, so in 1995, post-sale, I went out and spent quite a bit of time looking at family offices. And equally, the more I think about it – with hindsight, of course – with 60-odd members of my family, we were kind of a multi-family office from day one. It might not be that there were multiple families there, but at the time you get to 60 people you've got a pretty broad spread of interests.'

BORN TO LEAD

Scott was born in 1959 and brought up in Kendal. He was sent to a comprehensive when 'it was a brave new world' (though he has chosen to educate his own children privately) and won a place at Oxford to read law, but he changed to PPE when he realised he 'was never going to be a decent lawyer'.

Graduating in 1981, he first joined the stockbrokers Grieveson Grant before moving into communications for a couple of years. After an MBA in Geneva in 1987, he took charge of communications for Thames Water. 'Part of my job was to build the profile of Thames Water,' he says, 'but I also took a lot of stockbroking analysts and politicians round sewage-treatment works and down the London sewers.'

Told in 1992 that he was expected to take over the family business three years later, he went to work as communications manager for Jardine Fleming in Hong Kong for 18 months.

The couple of years after the sale of Provincial were spent prepping and setting up the multi-family office, but 'it really wasn't until 2002 that we began to get some traction in terms of other people being interested. We launched the multi-family office in the years of irrational exuberance. You know, people weren't interested in asset allocation, risk management and all that stuff. It was just "make money". And so the dotcom crash was a good thing, the banking crisis an even better thing. Both had twin elements, I suppose: educating the owners of liquid assets about the nature of risk, and causing them to challenge and question the existing institutions. And that's the niche that's been created for businesses like this.

'From an investment perspective, most of these businesses are going to focus on asset allocation, because we all know that over the long term – and our clients are long-term, that's what differentiates them – they want to be good stewards of the assets they've created or inherited. Long-term asset allocation is going to be the most important decision they make. So we all need to be really good at asset allocation.'

BRANCHING OUT

Applerigg, the family holding company, also owns Yealand Administration, a fund administration business, and Mount Kendal, a joint venture with Delancey, which gives families direct access to real estate investment. From 1998 to 2004 there was also Sandaire Private Equity, but that was sold to Dunedin.

'If you look at our clientele, and they're pretty much entrepreneurial – not all, because there's inherited wealth as well – you'd anticipate that they'd be keen for some direct exposure to one-off opportunities. If you've got multiple asset classes and limited resource, you should put your limited resource towards the ones that are least efficient, because that's where you'll find the more interesting investment opportunities. Hence, private equity and property as well.

'But I have to say, that's at the margin. The core remains the same: equities and bonds – although like most wealth managers we haven't participated in some of the bond market performance of the past four or five years because we've struggled to buy bonds at the yields that they've had.'

> "THE DOTCOM CRASH WAS A GOOD THING, THE BANKING CRISIS AN EVEN BETTER THING

Above: Sandaire is named after Sand Aire House in Kendal, Cumbria, the former HQ of Provincial Insurance

NEW FRIENDS

In 2014 Sandaire merged with another multi-family office, Lord North Street, almost doubling its client base – although of the 25-strong management team that came over from Lord North Street only a handful remain. 'It was an opportunity for us to add scale, gain some skills they had.' Sandaire now has approximately £3 billion AuM.

A self-confessed middle-aged man in lycra, Scott still lives with his family in Cumbria, on a working farm (ewes and cattle), and commutes each week to Sandaire's office in Wigmore Street ('I know the Virgin west-coast line very well'). He serves as a trustee on the Francis Scott Charitable Trust, on Vision for a Nation (delivering primary eyecare to the population of Rwanda), and the Grosvenor Estate.

The Scott family has a governance process whereby members of the next generation are getting involved now. 'In 1994 I was, I hope, the right person for that time, but you don't need those skills again,' says Scott. 'I was there at an entrepreneurial window, happened to be the right age, with the right demeanour, the right background and probably the right ambition. The skills required for the business from the next cohort of owners may be different. If you look at the family tree, it's not just me, with two sons and two daughters. In the next generation there's about 37 members. So that's a good cohort.'

20m — Number of trades per year carried out by UK wealth managers

50% — Proportion of assets managed that is invested in direct securities

£27.7bn — Total value of charitably held assets managed by UK wealth industry

SOURCE: BBA

ance clients, and something he says no other big banks do. Web bank Monzo does offer such a service – 'But can they print you a new contactless card in three and a half minutes in any branch?' counters Donaldson.

He says Metro never expected to have grown the private bank to this size within such a short window: 'People like us because we're new – and they also like us simply because we're open seven days a week.' Wealth management was never the mandate, though, which perhaps licenses his confidence: 'We are a really good bank. We are fundamentally better than anybody else, but there are great wealth managers out there. My view is if we focus on being an unbelievably good bank and work hand-in-glove with wealth managers, then we'll have the best complementary service.'

It's hard to see Hoare, Elder or Sellon disagreeing. Donaldson says they found too many customers were being alienated by banks pushing wealth management products but not being able to provide a mortgage or loan. All four have focused on what clients need, not on what they can give them for the sake of it. The fintech dawn and the rise of digital banking are still fêted by wealth managers as the next big things, but speak to any professional worth their salt and they'll say the writing has been on the wall for some time. Digital has brought the management side to the mass market via companies such as Nutmeg and, as banking moves online, established wealth managers are looking to assert themselves in the space (one major bank, already winning awards for its app, is experimenting with Siri) before those already there meet them halfway: Amazon and Google have been looking into banking for some time.

SERVICE SCHISM

The big (typically British, American or Swiss) internationals able to cater for every aspect of UHNWs' lives have been able to give the 'private office' service additional legitimacy, providing clients to researched trends and intelligent, advice-led investments, wealth planning and lifestyle provision. But if you're not a multibillion international family

> "IF WEALTH MANAGERS OFFER EVERY SERVICE UNDER THE SUN, SMART CLIENTS MIGHT START CHERRY-PICKING

with an asset matrix finely tuned to risk, then you might think twice about the value of family office-style service if it's just another overhead above you return. Indeed, it was the plight of these smaller clients, left behind by the service schism that created the poles of private offices for ultras and portfolio products for borderline HNWs, that begat the services offered by Donaldson, Elder, Hoare and Sellon – men who saw a middle ground to be won anew.

So if so many wealth managers are now offering every service under the sun, the smart clients might start cherry-picking: Donaldson for the current account, Sellon for the stateside fortune, Elder for the equity portfolio, and Hoare for the philanthropic venture, not to mention one of the most cherished current accounts around.

Perhaps predictably, they all provide different answers when I ask where the smart money is heading. 'Quality securities at inexpensive prices to book multiples; segments like emerging markets and value stocks are currently of particular interest,' says Sellon. That's echoed by Elder, who highlights ongoing geopolitical risk and Asian and emerging equity markets that 'are trading at a significant discount in both absolute and relative price terms'.

Meanwhile Hoare employs the banker's long-termism, nodding toward socially useful impact investments. There's no obfuscation in pretending it's really about walking dogs and badging up with 'private family office services'; they want to preserve and grow clients' money in the specific ways they set out to do. They understand that adding extras for the sake of it often drains, rather than complements, the resources of both parties.

All four have found a way to do a few things very well rather than offering panaceas mis-labelled as 'holistic service'. Those wealth managers and bankers playing to their strengths, and not being distracted by trying to on-board new money with flashy gestures and big lunches, are the New Men. It seems a diverse portfolio applies to how you pick your service, too.

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