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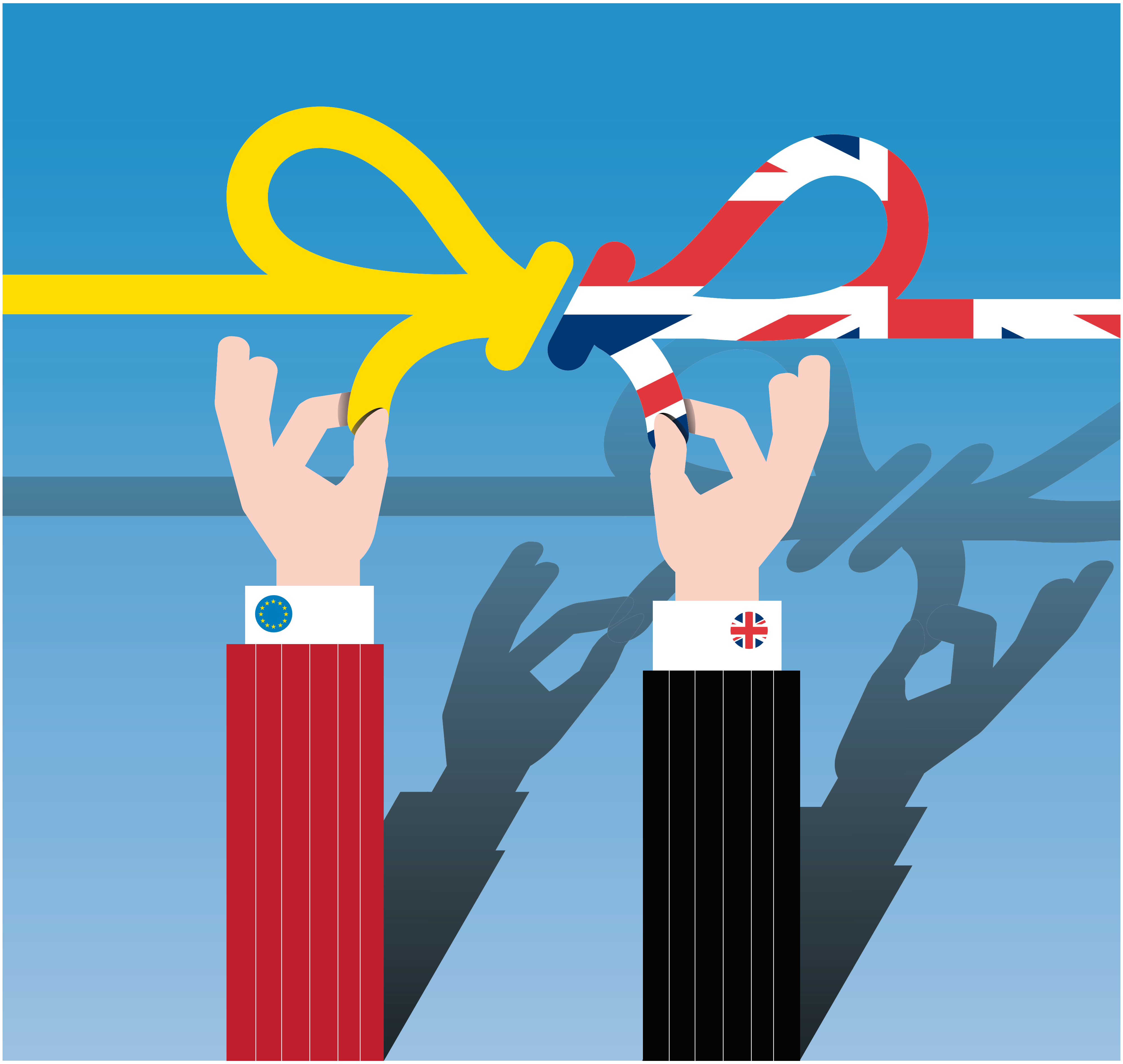
Private Client Wealth Management

An FTMoney Guide



Gloomy spectre of Mifid II hangs over managers

Mifid II is due to come fully into force in January — Bloomberg

REGULATION

Firms still waiting for regulator to clarify complex new rules

AIME WILLIAMS

It might not sound very scary, but the whisper the words “Mifid II” to any wealth manager and watch the blood slowly drain from their face.

A fearsome piece of financial legislation, the Markets in Financial Instruments Directive II has been seven years in the making, but comes into force in January next year. With just months to go before these complex rules are implemented, firms complain that they are still waiting for regulators to clarify exactly how they will work.

“It is the project from hell and details are coming out late, so firms are having to take a view and crack on,” says Ian Cornwall, director of regulation at the wealth managers' industry body.

In this year's snapshot of the wealth management industry, conducted by Wealth-X for the FT, the majority of firms surveyed said getting ready for Mifid II was a major preoccupation, eating up considerable costs and resources.

According to an estimate from consultancy EY, a typical medium-sized UK wealth manager is spending between £3m and £5m on “getting ready” for Mifid II. “This is the issue *de jour* for most wealth managers,” says Anthony Kirby, director of regulatory and risk management at EY.

The regulations require wealth managers to send fund houses detailed reports on who is buying their funds — as well as writing to retail investors more frequently to tell them how their portfolio is performing.

These new requirements are causing “grief and work”, says David Ogden, compliance officer at Seven Investment Management, not to mention the vast expense of buying in new technology and data systems.

More than half of those wealth managers surveyed by Wealth-X said the new rules would have a “large” or “very large” impact on their business, with many citing the need to upgrade their technology to handle the new level of scrutiny they face.

There is also a human cost, says Mr Cornwall. “You'll have to take your best staff out of the day-to-day business to work on this. It doesn't stay in the compliance [department].”

On top of this, the regulation will change how wealth managers pay for investment research from brokers and investment banks. Several of the managers surveyed said this was among their main concerns, and they are expecting a large bill.

Exactly how large is unclear, but some banks have put forwards quotes of $10m (£7.8m) a year to provide larger asset managers with complete access to their research, so wealth managers are worried.

Other concerns revolve around a new level of transparency for costs and charges. Mifid II will require wealth managers to be much clearer about the fees they are charging. That is good news for clients, who will find it easier to compare costs and shop around, but analysts say it will further weigh on the profits of wealth managers.

“Transparency comes from greater disclosure of fees, and not just for high net worth [clients] but for retail [investors] too,” says Kinner Lakhani, Deutsche Bank's head of European bank research. “Greater transparency leads to margin pressure.”

This all comes aside from the matter of Brexit, which threatens to cut off many UK-based wealth managers from their continental clients. The Wealth-X survey found that more than half of those with European clients do not know how they will continue to serve them if the UK leaves the single market, and are waiting for more information before putting a plan in place.

On a more positive note, Brexit helped the bulk of wealth managers' portfolio performance. The Brexit vote caused sterling to plunge to its lowest level against the dollar for more than 31 years — but this flattering currency effect provided a boost for those with overseas investments.

Most UK wealth management portfolios would have been sterling denominated but had international exposure, says Tom Sheridan, chief investment officer at Seven Investment Management. “The devaluation of the pound would have helped them a lot.”

According to Wealth-X, the average balanced portfolio returned 10.74 per cent (net of fees) in 2016 — up from just 2.3 per cent the year before. To put this figure in context, 2015 was particularly poor, with wealth managers returning 4.8 per cent in 2014, 11.3 per cent in 2013 and 9.1 per cent in 2012.

There was a similar story for growth portfolios, which posted returns of 13.08 per cent (net of fees) in 2016, compared with 3.2 per cent in 2015, 5.1 per cent in 2014 and 14.9 per cent and 12 per cent the two previous years.

Managers safely outperformed the FTSE All World index, which includes equities from around the globe and returned approximately 5 per cent in 2016.

The asset allocations in an average growth portfolio have not changed a great deal from last year. Wealth managers have about 66 per cent of their assets invested in equities, around 15 per cent in bonds, 2.5 per cent in property and around 5 per cent in hedge funds or private equity.

As the expectation of rising interest rates in the UK and Europe grows, investors say they plan to reduce exposure to bonds and increase their exposure to equities. Some have taken renewed interest in alternative asset classes — including hedge funds.

Managers may have managed to outperform the index in 2016, but their allocation to low-cost index-tracking passive funds is increasing (albeit from a low base).

More than half of the managers surveyed have increased their exposure, although passive funds still only account for less than a tenth of their assets under management.

Some wealth managers have recently been candidly advising their clients of the benefits of switching into passive funds as asset managers face increased scrutiny over high fees and poor performance from regulators.

Following Vanguard's entry to the UK marketplace this year, the fear of large low-cost fund houses selling passive products directly to investors will be looming large over wealth managers as they grapple with regulatory issues.

ARC verification

Asset Risk Consultants (ARC) provide independent verification of participating companies' performance figures. Not all companies submit data or subscribe to ARC, so where indicated, the performance data has not been verified.

Performance

Wealth manager	Returns on averaged balanced portfolio (%) Over 1 year	Over 3 years (cum)	Over 5 years (cum)	ARC verified	Returns on average growth portfolio (%) Over 1 year	Over 3 years (cum)	Over 5 years (cum)	ARC verified
ACPI	3.7	12.7	33	√	2.3	11.6		√
Adam & Co	10.61	16.55	43.04	√	12.9	19.73	53.2	√
Barclays Wealth and Investment Management	11.7	18.4	41.7	√	14	23.3	49	√
Beaufort Investment Management	9.59	22.55	57.12		13.33	27.78	69.83	
Brewin Dolphin	10.4	18.92		√	11.93	21.31		√
Brooks MacDonald Asset Management	7.65	16.52	40.52	√	9.23	18.62	46.5	√
Canaccord Genuity Wealth Management	9.83	17.65	47.95	√	10.42	21.33	57.35	√
Cantab Asset Management	12.49	28.84	69.8		14.64	29.98	70.52	
Cazenove Capital Management	11.5	16.6	41.4	√	13.3	19.2	50.2	√
Charles Stanley	10	16.7	39	√	11.9	18.3	49.5	√
Citi Private Bank	12.69	20.09	33.65	√	16.35	27.03	49.74	√
Citigold	5	12	36		6	13	43	
Close Brothers Asset Management	9.44	18.93	40.85	√	11.71	20.49	47.03	√
Coutts	12.17	19.88	38.8	√	16.19	23.38	49.22	√
Credit Suisse	8.48	13.14	37.5	√	10.89	15.81	48.56	√
Dart Capital	8.79	23.32	52.89		9.47	24.35	57.24	
Equilibrium Asset Management	7.88	19.1	52.45		11.35	23.64	55.58	
GAM	9.4	15.1	43.5	√	13.3	19.1	56.5	√
Greystone	12.26	22.36	51.25	√	13.02	26.61	62.15	√
HSBC Private Banking	12.1	21.96	31.52		16.82	26.67	46.13	
Investec Wealth and Investment	12.3	19	51.6	√	13.9	20.7	57.8	√
Investment Quorum	9.57	18.81	51.48		11.37	30.65	74.13	
JM Finn	12.34	18.61	50.63		12.35	19.21	50.4	
James Hambro & Partners	10.5	21.8	49.6	√	13.1	24.6	60.3	√
Julius Baer	21.3	33.2	56		23.4	35.8	68.6	
Killik & Co	-	-	-	-	-	-	-	
London & Capital Asset Management	5.44	13.31	31.5	√	14.4	29.47	53.39	√
McInroy & Wood	14.3	20.6	52.5	√	18.6	31	62.4	√
Psigma Investment Management	11.62	15.02	39.89	√	14.27	18.64	47.46	√
Rathbones Investment Management	10.46	18.32	41.05	√	12.7	20.58	50.9	√
Redmayne-Bentley	9.82	16.58	37.46	√	11.12	17.57	47.4	√
Rothschild Wealth Management	10.13	20.17	45.36	√	12.48	24.03	55.38	√
Ruffer	10.9	15.5	34.1	√				
Sarasin & Partners	10.06	20.14	45.59	√	11.79	22.18	51.91	√
Saunderson House Limited	10.5	19.88	50.71	√	12.01	22.29	58.14	√
Smith & Williamson	11.73	20.29	41.5	√	13.51	22.7	54.41	√
St. James's Place	12.9	20.4	45.7	√	16.2	24.4	69.7	√
Standard Life Wealth	12.19	23.9	47.6	√	12.65	26.64	61.67	√
Stonehage Fleming	10.76	16.55	28.35	√	11.82	16.89	32.25	√
Tilney Group	10.5	21.1	54.6	√	11.8	23.2	61	√
UBS Wealth Management (UK)	9.58	16.89	38.38	√	13.38	21.13	51.12	√
Veritas Investment Management	14.4	25.8	47.5	√	15.6	28.5	54.4	√
W H Ireland	8.47	19.68	46.07	√	11.88	22.4	52.12	√
Walker Crips	19.1	29.3			22.3	32.4		
Waverton Investment management	7.88	15.1	36.87	√	12.77	21.5	49.84	√
Average	10.74	19.35	44.19		13.08	22.97	54.65	
Max	21.30	33.20	69.80		23.40	35.80	74.13	
Min	3.70	12.00	28.35		2.30	11.60	32.25	

Source: Wealth-X Private Client Wealth Management Survey 2017 Killik & Co declined to issue performance data Returns are net of fees

PRIVATE CLIENT WEALTH MANAGEMENT

Top performers revealed

Tilney Group has the best-performing average balanced portfolio over five years of the 34 ARC-verified wealth managers surveyed by Wealth-X, posting a cumulative return of 54.6 per cent, net of fees.

McInroy & Wood ranked second with 52.5 per cent, closely followed by Investec Wealth & Investment, which posted 51.6 per cent.

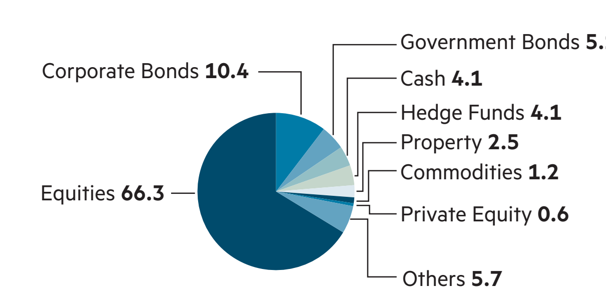
A total of 45 wealth managers responded to the 2016 survey, of which 34 committed to have their performance figures independently verified by Asset Risk Consultants (ARC), an investment consultancy.

Jason Hollands, managing director of Tilney Group, ascribes the company's performance to a “robust asset allocation approach” that combined predominantly active management with a commitment to use passives.

For the average growth portfolio over five years, St James's Place took first place of the 33 ARC-verified companies with a cumulative return of 69.7 per cent, net of fees. McInroy & Wood were second with 62.4 per cent, while Greystone was just behind on 62.15 per cent.

Andrew Humphries, private client director at St. James's Place, says the company offers good performance “by combining different strategies and asset classes” and “identifying high-quality active managers from around the globe”. *Hugo Greenhalgh*

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



Source: WealthX

Is your wealth manager prepared for Brexit?

UNCERTAIN FUTURE

Expats may no longer be served by UK firms after EU departure

ATTRACTA MOONEY

Britons who have retired to the sunshine could find themselves unable to access UK-based wealth management services after the departure from the EU

Just weeks after the UK voted to leave the EU, Theresa May uttered a sentence that would become one of her catchphrases: "Brexit means Brexit."

Nearly a year later, those words provide little comfort to the UK's £825bn wealth management industry, which finds itself in limbo, unsure of what Brexit really means for its businesses — or clients.

Many fear that after the UK splits from the rest of the EU, wealth managers in the UK will have difficulties servicing clients based in Europe. So Britons who retired to the Costa del Sol or the south of France could find themselves abandoned by their UK wealth manager — while wealthy clients of UK firms could risk losing out on certain investment products.

Julie Patterson, asset management global Brexit lead at KPMG, the consultancy, says many wealth managers have yet to wake up to the big challenges facing their industry and clients because of Brexit.

"Some wealth managers think the world will carry on as it is, but we are leaving the EU, so something is going to change [for the industry]," she says. "There are still a number of wealth management firms that have really not understood what the changes will be."

One of the biggest issues confounding the wealth management sector is whether UK-based firms will have to dump their EU clients — including British expats — or set up expensive operations on the continent to retain them post-Brexit.

According to industry estimates, wealth managers risk losing up to a quarter of their business because of the prospective loss of passporting — the right to sell products across the single market from a base in one EU country.

Yet in a sign of how unprepared the industry is for Brexit, more than half of UK wealth managers with EU clients have failed to consider how they will deal with this issue when Britain leaves, according to figures from Wealth-X, the research company.

Some 55 per cent of wealth managers with EU clients say they are waiting for more information before putting a plan in place.

This contrasts with banks, insurers and asset managers, which have all begun taking steps to ensure they can continue to service EU clients after Brexit.

RSA and AIG, the insurers, have already said they will set up offices in Luxembourg in response to Brexit, while Standard Life and Legal & General have chosen Dublin as a base to service their EU clients. JPMorgan, the US bank, has bought an office in Dublin to house staff post-Brexit, while M&G Investments is boosting its presence in Luxembourg.

Election impact

This month's surprise election results, where the Conservatives failed to win a majority, has prompted suggestions that the UK is now more likely to opt for a so-called soft Brexit, rather than shutting the door on the single market. This has raised hopes that UK-based financial services companies will be able to continue servicing clients from the UK.

But wealth managers are not expected to benefit hugely. John Barrass, deputy chief executive of the Personal Investment Management & Financial Advice Association, the newly formed trade body that includes the former Wealth Management Association, says some wealth managers were mistakenly hoping that they would face no restrictions dealing with EU clients post-Brexit.

But he warns: "You won't be able to service those clients once you are out of the EU. You would need to set up an entity, under the grip of some local regulator."

At the heart of the issue is a far-reaching set of rules known as Mifid II. Wealth managers currently rely on these rules to service EU retail clients from the UK by passporting their services across European borders.

The rules also allow asset managers from outside the EU to run money for so-called professional investors, such as European pension fund and insurance clients. But that exemption does not extend to retail investors — including wealth manager clients.

This means that wealth managers now have to decide how important their EU-based clients are to their business. According to Wealth-X, just 3.5 per cent of wealth managers with EU clients say they plan to set up a new business in Europe to continue to service their continental investors. A further 38 per cent say they already had operations in the EU, which they would draw on for their European clients.

Ms Patterson says: "Wealth managers need to think 'do we want to give up this business or set up a subsidiary in the EU?'. We are two or three years off Brexit, but wealth managers still need to make plans. It is not a quick thing to set up a subsidiary."

In stark contrast to many in the sector, Investec Wealth & Investment already has plans in place to deal with the Brexit fallout for its EU clients. David Bulteel, head of international business, says the company is committed to looking after its EU clients.

"We are taking the view that passporting as it stands will seize post Brexit," he says. "We have a Dublin office and we are looking at how that might help us as we service our EU clients. We are absolutely eyes wide open about what this could potentially mean for our clients."

Theresa May: due to begin Brexit negotiations — AP

PRIVATE CLIENT WEALTH MANAGEMENT

Ucits question

Another issue keeping some wealth managers awake at night is whether they will be able to retain access to the best staff and the best investment products once the UK leaves the bloc.

Many wealth managers regularly use and recommend a type of investment fund known as a Ucits (undertakings for collective investment in transferable securities) that are regulated under EU law and typically based in countries such as Ireland or Luxembourg.

But there are fears that investment managers could face restrictions selling these EU-based funds to UK clients after Brexit. Asset managers could be forced to set up separate versions of these Ucits funds in the UK, which would add an additional layer of cost that might be passed to investors.

Chris Ralph, chief investment officer at St James's Place, the UK wealth manager, says: "In my view the UK will remain a pre-eminent financial services country, but it is going to become more expensive and complicated for a UK asset manager to distribute into Europe and from the UK into Europe. That will make the asset management business more expensive."

There are also concerns that some asset managers might shun the UK rather than pay the additional cost of setting up funds in the country, leaving investors with less choice.

Mr Barrass says: "Wealth managers want to continue to be able to invest in the full range of funds post-Brexit."

Robert Ward, chartered wealth manager at Walker Crips, the wealth manager, adds: "One would hope that a good degree of common sense and maturity is applied when negotiations turn to things such as access to particular fund structures and operational matters impacting client servicing."

In the months ahead, as the UK negotiates its exit from the EU, Mr Barrass says that wealth managers and investors should have more clarity over how they will be affected by Brexit. But he adds: "We do not want any adverse changes to hurt the wealth management industry."

Some wealth managers have estimated they may lose a quarter of their business when Britain leaves the EU — AFP

UK election

Hung parliament rattles managers

Britain's asset managers scheduled emergency meetings to deal with the fallout of last week's general election, with many at their desks by 4am on Friday to reassure clients and to assess the market impact of the Conservative party's unexpected failure to achieve an outright majority.

The wider investment community is preparing for market volatility and anxiety among clients due to the economic and political uncertainties the election result entails.

Nigel Green, founder and chief executive of deVere Group, the wealth manager, says that financial markets had mostly priced in a hard Brexit and will now have to reassess.

"As this adjustment takes place we can expect the uncertainty in the financial markets not only to continue, but to intensify," he says.

Peter Sleep, senior portfolio manager at 7IM, the UK investment house with £11bn of assets, says the company had been "on the front foot" in terms of communicating with its client base once the election result was known, including running a webcast that was "exceptionally well attended".

Philip Poole, head of asset allocation at Deutsche Asset Management, the German fund company with a large UK presence, says: "In common with everyone else, we expected the Tories to continue to have an absolute majority after this election. This is a surprise. There is no doubt about that."

Steve Jacobs, chief executive of BTG Pactual Asset Management, the fund house that shorted sterling on Friday, adds: "Uncertainty over Mrs May will not help [markets]. Personally, I think she is fatally wounded and will step down, but not for a few months. This will [put] pressure [on] sterling."

Most managers said they were holding back from making big investment calls until there was more clarity on the shape of the new government and its likely stance on Britain's future relationship with the EU.

Madison Marriage and Attracta Mooney

PRIVATE CLIENT WEALTH MANAGEMENT

Wealth groups shun passive investments

INDEX TRACKERS

Cheaper funds remain tiny part of portfolios, survey reveals

ATTRACTA MOONEY

Less than a tenth of wealth management clients' assets are invested in cheaper passive funds, despite widespread criticism of active stockpickers by academics and regulators over high fees and bad performance.

Active funds, where portfolio managers select investments rather than follow an index, have come under intense scrutiny in recent years on the back of damning research that found that the majority fail to beat their benchmark.

More than half of wealth managers in the UK say they have increased the use of cheap passive funds, but they still remain a tiny part of client portfolios, according to figures from Wealth-X, the research provider.

Just 9 per cent of assets in portfolios run by UK wealth managers, on average, were invested in passive funds, which track an index rather than try to actively pick the best-performing stocks. More than a quarter of 36 British wealth managers polled said zero per cent of their clients' portfolios were invested in passive funds.

Amin Rajan, chief executive of Create Research, the investment industry consultancy, says wealth managers have been slow to embrace passive funds over concerns that these strategies could suffer in difficult markets.

"Passives are cheap, but not cheerful, as most wealth managers recognise," he says. "However, if active funds continue to underperform, wealth managers will be forced to increase their allocations to passives in order to attract and retain assets."

Last year, research by S&P Dow Jones, the index provider, found that almost all US, global and emerging market funds had failed to outperform the market since 2006. Regulators in Europe also found that many active funds were charging high fees despite closely following their benchmark, a practice known as closet tracking.

Matt Philips, managing director at Thomas Miller Wealth Management, a UK company that oversees £3bn for its investors, says he has been advising clients to use passive funds for many years over concerns about active fund managers' performance.

"The underperformance of active funds is a consequence of too many managers masquerading as active when then are really index 'huggers' and doing it at an expense, which is not justified by the outcomes and performance," he says. "In these circumstances we'd buy a passive strategy. We avoid these funds completely."

Lynn Hutchinson, senior analyst at Charles Stanley, says the wealth manager has turned to passive funds — including exchange traded funds (ETFs) and index trackers — in recent years in a bid to find cheaper ways of accessing markets.

She says: "The bottom line is that you can't rely on a brand name or a past record to be sure of outperformance from an active fund manager."

Rising concerns about active funds have contributed to the rapid growth of the passive management industry. Figures from Morningstar, the data provider, show that money invested into passive funds globally grew 4.5 times faster than those under active management in 2016.

In the UK, assets managed in passive funds grew by more than 24 per cent between the end of 2015 and April 2017, while active fund assets increased by just 3 per cent.

However, strong demand for passive funds has also sparked concerns. Mick Gilligan, head of fund research at Killik & Co, the wealth manager, believes that as more money is raised passively, there is a risk that markets could become less efficient.

There are also fears that passive funds are fuelling an unsustainable price bubble in the US stock market.

According to Wealth-X, few wealth managers have decreased their overall allocation to passive funds over the past five years. But Thomas Miller's Mr Philips says the wealth manager has recently begun switching back to active funds.

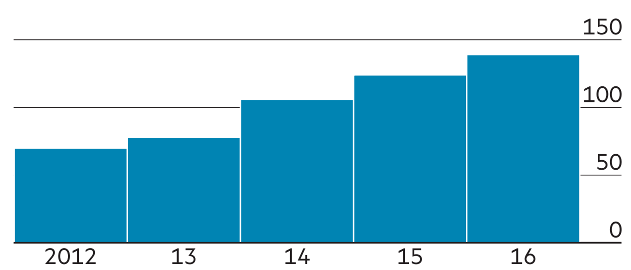
"We have been trimming our passive exposure back as we believe there are defensive qualities in certain sectors of active management that will prove useful at this point in the cycle," says Mr Philips.

Chris Ralph, chief investment officer at St James's Place, the UK wealth manager, adds that there are legitimate concerns about what would happen to investors in passive funds if there was a market correction.

"If we experience market volatility, we are in untested markets," he says. "The counterpart to that is for our active fund managers, who are buying shares because they think they are good value. All of this creates opportunity."

Rapid growth: assets in index funds

Total assets under management in UK-domiciled passive funds (£bn)



Source: Morningstar

Investment allocation

Wealth manager	Current asset allocation of the average balanced portfolio invested on behalf of UK private clients (%)									Current asset allocation of the average capital growth portfolio invested on behalf of UK private clients (%)								
	Cash	Equities	Bonds: Corporate	Bonds: Government	Property	Private Equity	Hedge Funds	Commodities	Other	Cash	Equities	Bonds: Corporate	Bonds: Government	Property	Private Equity	Hedge Funds	Commodities	Other
ACPI	15.0	30.0	50.0	0.0	0.0	0.0	5.0	0.0	0.0	5.0	40.0	40.0	0.0	0.0	0.0	15.0	0.0	0.0
Adam & Co	2.0	52.0	25.0	17.0	4.0	0.0	0.0	0.0	0.0	2.0	78.0	10.0	7.0	3.0	0.0	0.0	0.0	0.0
Barclays Wealth and Investment Mgnt	4.0	54.0	8.0	4.0	4.0	0.0	8.0	4.0	14.0	4.0	62.0	5.0	2.0	4.0	0.0	7.0	4.0	12.0
Beaufort Investment Management	8.3	45.7	18.6	0.0	12.0	0.0	8.5	0.0	6.9	6.5	65.8	8.2	0.0	7.5	0.0	6.6	0.0	5.4
Brewin Dolphin	4.0	56.0	15.5	6.5	3.5	0.0	0.0	0.0	14.5	2.0	80.0	4.5	2.0	3.0	0.0	0.0	0.0	8.5
Brooks MacDonald Asset Mgnt	5.0	43.0	35.0	3.0	4.0	0.0	0.0	0.0	10.0	3.0	66.0	17.0	3.0	4.0	0.0	0.0	0.0	7.0
Canaccord Genuity Wealth Mgnt	5.0	68.5	13.6	0.0	0.0	0.0	0.0	0.0	12.8	3.4	79.8	5.4	0.0	0.0	0.0	0.0	0.0	11.4
Cantab Asset Management	0.0	55.0	20.0	0.0	5.0	0.0	0.0	0.0	20.0	0.0	65.0	10.0	0.0	5.0	0.0	0.0	0.0	20.0
Cazenove Capital Management	5.5	45.5	8.2	14.0	5.2	0.0	6.6	3.8	11.2	3.1	65.7	3.6	9.2	2.6	0.0	5.3	2.5	8.0
Charles Stanley	0.0	68.9	4.3	12.1	3.4	0.1	5.8	0.0	5.4	0.0	86.1	1.8	5.3	1.8	0.3	1.9	0.0	2.8
Citi Private Bank	2.0	42.0	19.0	19.0	0.0	0.0	12.0	0.0	6.0	1.0	62.0	12.0	11.0	0.0	0.0	10.0	0.0	4.0
Citigold	1.0	44.0	28.0	21.0	6.0	0.0	0.0	0.0	0.0	1.0	57.0	26.0	8.0	4.0	0.0	0.0	0.0	4.0
Close Brothers Asset Management	3.0	71.4	17.7	3.5	0.0	0.0	0.0	1.3	3.2	2.9	84.7	7.1	1.2	0.0	0.0	0.0	1.7	2.4
Coutts	3.6	46.4	21.0	6.5	6.0	0.0	12.0	1.5	3.0	2.6	73.4	12.5	0.0	4.0	0.0	6.0	1.5	0.0
Credit Suisse	1.3	46.9	33.6	0.0	2.4	0.0	10.0	5.8	0.0	0.6	68.4	13.8	0.0	2.3	0.0	9.1	5.8	0.0
Dart Capital	1.0	60.5	9.0	9.0	5.5	0.0	12.0	3.0	0.0	1.5	69.5	6.0	7.8	4.5	0.0	7.8	3.0	0.0
Equilibrium Asset Management	11.0	29.0	15.0	5.0	3.0	0.0	0.0	0.0	37.0	10.0	43.0	9.0	3.0	3.0	0.0	0.0	0.0	32.0
GAM	5.5	48.0	5.3	4.0	0.0	0.0	24.0	0.0	13.2	3.7	66.8	4.2	0.0	0.0	0.0	21.3	0.0	4.0
Greystone	2.0	49.0	22.0	6.0	10.0	0.0	0.0	0.0	11.0	1.0	69.0	8.5	5.5	0.0	0.0	0.0	0.0	16.0
HSBC Private Banking	4.5	23.8	24.8	27.0	3.3	0.0	13.3	3.3	0.0	4.5	35.2	21.0	14.3	5.0	5.5	12.5	2.0	0.0
Investec Wealth and Investment	4.0	62.0	10.0	9.5	5.5	0.0	4.0	3.0	2.0	3.0	78.0	4.0	5.0	3.0	0.0	2.0	3.0	2.0
Investment Quorum	2.0	47.0	25.0	15.0	11.0	0.0	0.0	0.0	0.0	3.0	70.0	5.0	0.0	0.0	0.0	0.0	5.0	17.0
JM Finn	-	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-	-
James Hambro & Partners	8.0	55.0	4.5	13.5	0.0	0.0	0.0	0.0	19.0	7.0	70.0	0.0	9.0	0.0	0.0	0.0	0.0	14.0
Julius Baer	7.7	56.0	16.0	11.8	2.5	0.0	4.5	0.0	1.5	7.7	72.0	8.0	1.8	3.5	0.0	5.5	0.0	1.5
Killik & Co	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
London & Capital Asset Management	8.0	44.0	46.0	2.0	0.0	0.0	0.0	0.0	0.0	7.0	65.0	26.0	2.0	0.0	0.0	0.0	0.0	0.0
McInroy & Wood	1.0	60.0	0.0	34.0	0.0	0.0	0.0	5.0	0.0	1.0	60.0	0.0	34.0	0.0	0.0	0.0	5.0	0.0
Psigma Investment Management	6.5	43.5	20.5	14.0	0.0	0.0	3.5	2.5	9.5	2.8	56.3	18.0	7.3	0.0	0.0	3.5	3.0	9.3
Rathbones Investment Management	22.0	33.0	16.0	10.0	0.0	0.0	0.0	5.0	14.0	9.5	62.0	12.5	5.0	0.0	0.0	0.0	3.0	8.0
Redmayne-Bentley	0.0	50.0	7.5	17.5	10.0	0.0	0.0	0.0	15.0	0.0	67.0	4.0	4.0	10.0	0.0	0.0	0.0	15.0
Rothschild Wealth Management	15.0	59.3	11.4	0.0	0.0	0.0	14.2	0.0	0.1	9.4	72.2	3.0	0.0	0.0	0.0	15.3	0.0	0.1
Ruffer	14.0	37.0	0.0	38.0	0.0	0.0	1.0	4.0	6.0									
Sarasin & Partners	5.1	42.6	7.9	30.6	1.3	0.0	0.0	1.7	11.0	5.5	59.2	7.1	14.4	1.6	0.4	2.0	1.7	8.2
Saunderson House Limited	6.0	50.0	28.0	8.0	8.0	0.0	0.0	0.0	0.0	3.0	61.0	22.0	6.0	8.0	0.0	0.0	0.0	0.0
Smith & Williamson	2.0	79.0	5.0	2.0	5.0	3.5	3.5	0.0	0.0	2.0	65.0	10.0	8.0	5.0	5.0	5.0	0.0	0.0
St. James's Place	9.0	49.2	24.4	5.6	8.8	0.0	0.0	2.0	1.0	7.5	62.6	18.4	9.9	0.0	0.0	0.0	0.0	1.7
Standard Life Wealth	7.7	59.7	13.1	8.3	3.6	0.0	0.0	0.0	7.7	2.6	72.9	9.7	4.6	4.4	0.0	0.0	0.0	5.8
Stonehage Fleming	0.6	50.9	13.0	15.1	0.0	10.0	0.0	0.0	10.4	0.6	63.3	11.0	5.3	0.0	15.0	0.0	0.0	4.8
Tilney Group	8.0	56.0	8.0	4.0	4.0	0.0	16.0	4.0	0.0	7.0	68.0	4.0	1.0	3.0	0.0	13.0	4.0	0.0
UBS Wealth Management (UK)	5.0	42.0	17.0	16.0	0.0	0.0	18.0	0.0	2.0	5.0	62.0	10.0	7.0	0.0	0.0	14.0	0.0	2.0
Veritas Investment Management	17.0	53.0	27.0	3.0	0.0	0.0	0.0	0.0	0.0	16.4	68.3	13.1	2.2	0.0	0.0	0.0	0.0	0.0
W H Ireland	5.5	50.5	18.5	5.0	8.0	0.0	2.5	5.0	5.0	5.0	67.0	8.0	2.5	6.5	0.0	6.0	5.0	0.0
Walker Crips	3.0	62.5	10.0	7.5	5.0	0.0	0.0	0.0	12.0	1.0	77.5	5.0	2.5	5.0	0.0	0.0	0.0	9.0
Waverton Investment management	8.9	51.0	13.4	3.4	2.7	0.0	9.8	1.9	8.9	7.6	68.7	10.3	2.6	0.9	0.0	2.8	2.1	5.0
Average (mean)	5.8	50.5	17.1	10.0	3.5	0.3	4.5	1.3	6.8	4.1	66.3	10.4	5.1	2.5	0.6	4.1	1.2	5.7
Max	22.00	79.00	50.00	38.00	11.98	10.00	24.00	5.80	37.00	16.40	86.10	40.00	34.00	10.00	15.00	21.30	5.80	32.00
Min	0	24	0	0	0	0	0	0	0	0	35	0	0	0	0	0	0	0

Source: Wealth-X Private Client Wealth Management Survey 2017 JM Finn and Killik & Co declined to issue investment allocation data. Portfolios may not add up to 100 per cent as they have been rounded to one decimal place

Clients, assets and fees

Wealth manager	% of discretionary funds invested in in-house funds	Min. portfolio size £k			Annual fee tariff (%)											
		Advisory	Discretionary	Execution only	£100,000	£250,000	£500,000	£1m	£2m	£3m	£5m	Minimum fee (£)	Additional charges (£)	Dealing charges	Separate 'platform' or custody charge?	Any alternative fee structers?
ACPI	2	-	1000	-	-	-	-	-	-	-	-	-	-	External custodians and brokers used charge between 0.10% and 0.20% in equities	N/A	N/A
Adam & Co	1	-	500	-	1.25	1.25	1.25	1.25	1.13	0.88	0.73	£2,000	-	Actual dealing costs passed to the client with no margin added.	N	N
Barclays Wealth and Investment Management	4.5	500	250	500	1.25	1.25	1.25	1.25	1.13	1.08	0.95	-	-	Included in the annual management charge.	N	N
Beaufort Investment Management	0	-	10	-	0.30	0.30	0.30	0.30	0.30	0.30	0.30	N/A	N/A	Platforms may have specific dealing charges, Transaction charge 0.05%.	Y	N
Brewin Dolphin	0	-	150	4	1.30	1.30	1.30	1.30	1.10	0.93	-	1000	-	£20 per transaction	N	Y
Brooks MacDonald Asset Management	2.53	-	250	-	0.75	0.75	0.75	0.60	0.60	0.50	0.50	-	-	First £10k = 1.00%, £10k to £250k = 0.15%, After £250k = 0.11%	N/A	N
Canaccord Genuity Wealth Management	2.8	-	100	-	1.50	1.50	1.25	1.00	1.00	1.00	-	-	-	£30 per trade for onshore clients	N	Y
Cantab Asset Management	0	500	500	-	-	-	0.75	0.75	0.75	0.75	0.50	-	-	Not applicable	N/A	Y
Cazenove Capital Management	14.51	-	1000	1000	-	-	-	-	-	-	-	-	-	Not applicable	N	Y
Charles Stanley	-	100	100	0.15	0.85	0.85	0.85	0.65	0.45	0.25	0.25	£850	-	Included within investment management fee.	N	N
Citi Private Bank	0	3900	5000	-	-	-	-	-	-	-	-	-	-	No dealing charges for discretionary mandates.	N	N
Citigold	-	150	-	-	-	-	-	-	-	-	-	-	-	Transaction fee 2%, advisory fee 1% (both transaction amount based)	Y	N/A
Close Brothers Asset Management	5	1000	1000	1000	-	-	-	1.00	1.00	1.00	1.00	No	Custody included. Dealing charges may apply	No dealing costs but there may be underlying brokerage charges payable by the client	N	N/A
Coutts	-	3000	1000	1	0.94	0.94	0.94	1.00	1.00	1.00	-	-	VAT	For discretionary portfolios and funds there are no additional dealing fees.	N/A	N
Credit Suisse	0.9	3000	3000	3000	-	-	-	1.50	1.30	1.30	1.10	£2800 per quarter	-	Between 0.15% - 1.00% (depending on asset class & deal size)	Y	Y
Dart Capital	0	250	250	-	1.00	1.00	1.00	1.00	1.00	-	-	-	-	£40 per trade. However there is a transaction fee free tariff for smaller portfolios	Y	N
Equilibrium Asset Management	0	100	100	-	1.50	1.50	1.50	1.25	1.00	1.00	0.80	£1,250 ongoing annual fee	None	None	N	N
GAM	30	2000	2000	-	-	-	-	-	0.50	0.50	0.50	-	Custody and underlying manager fees apply	Preferred custodian charge a flat fee of 0.10% per annum, including all dealing charges.	N/A	N
Greystone	100	0	1	-	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	-	Not applicable	N/A	N/A
HSBC Private Banking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Investec Wealth and Investment	0.29	150	150	-	1.25	1.25	1.25	1.25	-	1.04	0.60	£1500	-	Bargain administration charge £35	N	Y
Investment Quorum	0	100	100	0	1.00	1.00	1.00	0.75	0.75	0.75	0.50	-	Financial planning and platform fees	Included in investment fees	Y	Y
JM Finn	0	-	-	-	0.75	0.75	0.75	0.75	0.63	0.55	0.47	£750 per annum	1% commission on first £10,000, 0.5% thereafter	£20 compliance charge per transaction	N	N/A
James Hambro & Partners	2	1000	1000	-	1.15	1.15	1.15	1.15	1.15	1.15	0.75	-	Only broker execution services and VAT are charged in addition to fees	None	N	Y
Julius Baer	0	-	-	-	-	-	-	1.55	1.55	1.55	1.35	CHF 3850/ quarter	0.10% for simple restrictions, 0.25% for complex restrictions	None for discretionary mandates. Varies for advisory	N	N
Killik & Co	0	0	5	-	1.25	1.25	1.13	0.88	0.69	0.63	0.58	£250 per quarter	Additional transactions charges may apply depending on service	1% on trades up to £15,0000 .5% on amount over £15,000	N	N
London & Capital Asset Management	95	-	750	-	-	-	-	-	-	-	-	-	-	-	Y	N
McInroy & Wood	83	-	250	-	1.00	1.00	1.00	1.00	1.00	-	-	-	-	Charged at cost.	N	N
Psigma Investment Management	0	-	250	-	1.50	1.50	1.50	1.35	1.28	1.15	1.05	-	Probate valuations are charged for at a rate of £4 plus VAT per line of stock (maximum £250 plus VAT)	None	N	N
Rathbones Investment Management	1.87	100	100	15	1.20	1.20	1.00	0.99	0.81	0.70	0.62	No	None	None	N	N/A
Redmayne-Bentley	0	50	50	0	0.85	0.85	0.85	0.85	0.85	0.85	0.85	-	-	1.75% on the first £10,000. 0.5% on the balance above £10,000. A £10 settlement and compliance charge.	N	Y
Rothschild Wealth Management	20.3	-	5000	-	-	-	-	-	-	-	1.00	-	FX transactions	None	N	N
Ruffer	-	-	250	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	Charged at cost.	N	N
Sarasin & Partners	59	-	500	-	-	-	1.00	1.00	1.00	0.96	0.87	-	-	None	N	N
Saunderson House Limited	0	750	100	-	1.25	1.25	1.00	1.00	0.65	0.50	0.50	-	0.8%+VAT up to £20k initial charge	Custodian does not charge for dealing in UK-based assets. However, for assets deemed "non-UK" there is a £10 transaction charge.	N	Y
Smith & Williamson	3.22	0	0	0	0.80	0.80	0.80	0.80	0.80	0.65	0.53	-	custody and dealing charges	Dealing commission 0.4% for fixed interest, 0.6% for all other investments, minimum £40	Y	Y
St. James's Place	0	5	100	0	1.00	1.00	1.00	0.75	0.50	-	-	-	-	No dealing commissions, fee only	N	N
Standard Life Wealth	-	-	500	-	-	-	1.38	1.38	1.38	1.38	0.75	-	For target return portfolios the cost would increase by circa 0.7% per annum due to embedded annual management charges for the collective funds held within portfolios.	Included in the annual management charge.	N	N
Stonehage Fleming	5	7500	7500	-	0.85	0.85	0.85	0.85	0.85	0.85	0.85	-	-	Actual cost passed to client with no margin added	N/A	Y
Tilney Group	42	100	350	0.5	1.00	1.00	1.12	1.00	0.88	0.75	0.65	-	-	£15 for discretionary portfolios. £7.50 for online execution-only share trades (no fee fund deals)	N/A	Y
UBS Wealth Management (UK)	-	1000	500	-	-	-	-	-	-	-	-	-	-	Included in account fees for discretionary and some advisory fee options. Where applicable, a scale of transaction charges applies with a minimum charge of £100.	N	Y
Veritas Investment Management	0	-	3000	-	-	-	-	-	-	1.00	-	-	-	No in house dealing charges.	Y	N
W H Ireland	0	100	100	-	1.00	1.00	1.00	1.00	0.75	0.67	-	£1,000	-	£17.50 per transaction	Y	Y
Walker Crips	0	100	2	0.1	0.70	0.70	0.70	0.70	0.70	0.70	0.70	No	None	Model portfolios: Nonea bespoke service: 0.5%	N	-
Waverton Investment management	13	-	500	-	-	-	1.20	1.20	1.00	0.93	0.88	-	-	Third party dealing costs of up to 0.15% per equity transaction.	N	N

Source: Wealth-X Private Client Wealth Management Survey 2017

PRIVATE CLIENT WEALTH MANAGEMENT

Not all wealth managers are alike

COMMENT

David Barks

Over the years, Wealth-X has interviewed many wealthy individuals who say they have found it difficult to choose between potential investment managers. Many perceive wealth management firms to be very much alike. So the choice of which wealth manager to invest with is often reduced to a comparison of tiny differences; focusing on rapport, proactivity, and costs of services.

But this year's survey of the leading wealth managers in the UK reveals that a wide range of potential returns have been achieved over a five-year period — and a huge number of asset allocations have been used within the same type of portfolio.

For the past eight years, Wealth-X Custom Research has collaborated with the FT to inform readers of the changes — including financial performance — within the UK's wealth management industry.

This year, we received detailed responses from 45 of the most significant wealth managers in the UK. During 2016, the performance of a typical balanced portfolio significantly improved on 2015, following a period of strong gains in the FTSE 100.

Over the five years to December 31 2016, the FTSE 100 index gained around 25 per cent. However, those portfolios submitted by our leading wealth managers gained an average 44 per cent return, net of fees, over the same period.

While they have all beaten the benchmark, those five-year returns range considerably, from 28 per cent to almost 70 per cent (see feature on pages 2-3).

Given the huge variations in performance, one area that prospective clients should look at closely is investment strategy and typical asset allocations.

Asset allocations vary enormously for typical balanced portfolios. The three asset classes that make up, on average, three-quarters of most portfolios are equities, corporate bonds and government bonds. And the allocations to each of these vary hugely between wealth managers.

Equity allocations can range from 24 per cent to 79 per cent of a balanced portfolio. Corporate bonds can make up anything between zero to half, and government bonds account from zero to 38 per cent. And remember — this is before the investment managers pick which equities and bonds to invest in within that weighting.

What Wealth-X has found is that broadly speaking, there is a positive correlation between the outperformance and the equity weighting of balanced portfolios. The more equity risk your manager has taken over the past five years, the greater the rewards will have been. And the reverse applies for those portfolios with higher allocations towards bonds.

> There is a positive correlation between outperformance and equity weighting of balanced portfolios

With many stock markets around the world reaching all-time highs, the million dollar question is: how long this trend can go on for?

I won't attempt to answer that — but the data tells us that average allocations within balanced portfolios have not changed significantly since 2015. This suggests that investment philosophies are fairly fixed within wealth management companies.

Of course, these allocations and strategies take into account the openness to risk of clients too. Considering the political upheaval witnessed in 2016, a more risk-averse strategy could easily explain portfolios with higher allocation to bonds, where the desire to risk higher returns has been trumped by a strategy to minimise losses.

As wealth and investment managers regularly tell us, past performance is no judge of future performance. But when choosing a wealth manager, make sure that their investment strategy, risk assessment and asset allocation is appropriate and matches your preferences. This could be a much stronger determinant of achieving performance objectives than other aspects such as rapport, proactivity and costs, even though these are often more prominent in our minds.

David Barks is a research director at Wealth-X Custom Research, the global provider of wealth intelligence and research partner of the FT Private Client Wealth Management survey

Average allocations in balanced portfolios have changed little since 2015 — Bloomberg

Services

Wealth manager	UK offices	Number of advisors	Advisers joining in 2016	Active individual clients	Clients per advisor	Value of Advisory AuM (£m)	Value of Discretionary AuM (£m)	Value of Execution only AuM (£m)	Investment products/services used	Access to Alternative Finance / Crowdfunding	Advisory Investment Management	Banking	Brokerage	Charity Services	Commodities	Concierge	Discretionary Investment Management	Family Office services	Hedge Funds (including funds of funds)	In-house Fund Management	Insurance	Mortgages	Offshore Services	Online Discretionary Investment Management	Online Services	Pension & Retirement Planning	Philanthropic Planning	Private Equity	Tax Planning	Trust & Estate Planning
ACPI	1	15	3	-	-	854	1514	-	EM		x						x			x								x		
Adam & Co	4	55	4	11900	216	-	1300	-	EM			x		x			x			x		x			x	x	x			
Barclays Wealth and Investment Management	26	-	-	16000	-	3500	20500	10800	EM		x	x	x	x	x	x	x	x	x	x	x	x	x		x	x	x	x		x
Beaufort Investment Management	13	43	2	3377	79	226.6	384.2	-	EM		x						x									x			x	x
Brewin Dolphin	29	427	28	80000	187	2800	31500	3500	EM		x			x			x								x	x			x	x
Brooks MacDonald Asset Management	11	-	-	21619	-	-	9040	290	EM					x			x						x							
Canaccord Genuity Wealth Management	4	110	10	12000	109	3459	5789	4801	EM		x		x	x			x		x	x			x		x	x			x	x
Cantab Asset Management	2	9	2	400	44	250	250	-	EM		x			x			x	x	x						x	x	x	x	x	x
Cazenove Capital Management	6	84	3	7686	92	783	23557	3704	EM			x		x	x		x	x	x	x		x	x		x	x	x	x	x	x
Charles Stanley	24	274	4	73562	268	3720	9220	6780	EM		x			x			x			x			x		x	x			x	x
Citi Private Bank	2	46	4	-	-	11500	12439	800	SU		x	x	x		x		x	x	x		x	x	x		x		x	x		x
Citigold	1	100	10	-	-	2000	-	-	SU		x	x	x			x					x		x		x					
Close Brothers Asset Management	9	185	50	2400	13	2300	7800	0	SU		x			x	x		x	x		x			x		x	x	x		x	x
Coutts	18	322	-	-	-	1000	16200	4500	SU		x	x	x	x		x	x	x		x	x	x	x	x	x	x	x	x	x	x
Credit Suisse	2	77	11	1400	18	4200	3100	6200	SU		x	x	x	x	x		x	x	x	x		x	x		x	x	x	x		x
Dart Capital	1	3	0	365	122	52	377	14	SU		x						x								x	x			x	x
Equilibrium Asset Management	2	7	0	931	133	57.5	595	0	EM		x						x									x			x	x
GAM	1	6	1	360	60	320	1889	-	EM		x			x			x	x	x	x			x							
Greystone	2	19	0	2246	118	780	267	-	EM		x						x			x	x					x			x	x
HSBC Private Banking	7	-	-	-	-	-	-	-	EM		x	x	x	x	x	x	x	x	x	x	x	x	x		x		x	x		x
Investec Wealth and Investment	15	278	8	65000	234	6520	24902	-	EM		x			x			x						x	x	x	x	x			x
Investment Quorum	1	4	0	550	138	25	200	0	EM		x			x			x				x				x	x			x	x
JM Finn	5	90	2	15000	167	1053.2	5943.4	607.1	EM		x			x			x			x						x				x
James Hambro & Partners	1	15	2	1684	112	277	1822	-	EM		x			x			x			x			x		x	x			x	x
Julius Baer	1	70	6	-	-	-	-	-	SU		x		x		x		x	x	x						x	x		x	x	x
Killik & Co	8	78	5	20000	256	4000	1500	0	EM		x		x	x			x	x					x	x		x	x		x	x
London & Capital Asset Management	1	10	-	750	75	250	2500	-	EM		x						x			x										
McInroy & Wood	3	12	2	764	64	-	1362	-	IH								x													
Psigma Investment Management	3	23	3	4644	202	0	2338.67	272.5	EM					x			x						x		x					
Rathbones Investment Management	16	270	10	38291	142	1298	28734	937	EM		x	x		x			x	x	x	x			x		x	x	x		x	x
Redmayne-Bentley	37	109	22	96768	888	812	1176	3544	EM		x		x	x			x								x					
Rothschild Wealth Management	3	24	4	787	33	563	6827	0	EM			x	x	x	x		x	x	x	x		x	x		x		x	x	x	x
Ruffer	3	37	0	5809	157	0	6280	0	EM								x													
Sarasin & Partners	1	22	2	-	-	-	2850	-	SU					x			x			x			x		x					
Saunderson House Limited	1	57	0	1970	35	4494.4	82	-	EM		x			x			x									x	x		x	x
Smith & Williamson	7	171	9	16000	94	1964	12128	1457	EM		x	x		x			x	x	x	x			x		x	x	x		x	x
St. James's Place	22	3415	302	313000	92	74000	1300	0	SU		x	x		x			x		x		x	x	x			x	x		x	x
Standard Life Wealth	6	42	2	3845	92	-	6790	-	EM					x			x						x							
Stonehage Fleming	2	15	0	-	-	1375	3752	198	EM		x			x			x	x		x	x		x			x	x	x		x
Tilney Group	30	328	182	110000	335	2800	17100	2400	EM		x		x	x	x		x		x	x		x	x		x	x	x	x	x	x
UBS Wealth Management (UK)	7	208	16	9293	45	-	-	-	SU		x	x	x	x	x		x	x	x	x	x	x	x	x	x	x	x	x	x	x
Veritas Investment Management	1	12	1	300	25	-	1649	-	-								x													
W H Ireland	7	94	-	-	-	783	1016	1073	EM		x		x	x			x		x				x		x	x	x	x	x	x
Walker Crips	12	115	7	28551	248	1520	1240	2040	EM	x	x		x	x			x								x	x			x	x
Waverton Investment management	1	18	0	2000	111	-	4256	-	EM					x			x			x										
Totals	359	7299	717	969252	-	139537	281469	53918		1	34	13	15	33	10	4	44	16	16	23	10	11	26	4	28	29	20	14	24	31
% offering services										2%	76%	29%	33%	73%	22%	9%	98%	36%	36%	51%	22%	24%	58%	9%	62%	64%	44%	31%	53%	69%

Source: Wealth-X Private Client Wealth Management Survey 2017 EM=Entire market ('open architecture') SU=Selected universe ('guided architecture') IH=In house only

PRIVATE CLIENT WEALTH MANAGEMENT

Wealthy turn their backs on offshore tax havens

TAX AVOIDANCE

Tighter rules lead to fewer options for wealth managers

AIME WILLIAMS

UK wealth managers are quietly scaling back access to offshore accounts for their clients as the global crackdown on tax havens gathers pace.

The number of wealth managers offering UK investors offshore services dropped by a fifth in 2016 compared with the previous year, according to a survey by Wealth-X for the Financial Times. However, two-thirds of wealth managers surveyed said they still offered some offshore services.

The retreat is partly due to rules surrounding the exchange of information between tax jurisdictions tightening over recent years.

In 2010, the US introduced its Foreign Account Tax Compliance Act (Fatca) which forced overseas banks and wealth managers to hand over details of their customers.

"Post-Fatca, the ability to hide money offshore has gone away," says Matt Thomas, partner at global consultancy KPMG.

Other countries soon signed up to similar agreements with each other — tax authorities in more than 100 jurisdictions now exchange information with each other automatically.

"Pretty much wherever you are in the world, you're going to be reported back to the host nation," says Andy Thompson, director of operations at the UK's trade association for wealth managers and financial advisers.

Previously, such details were hard to find, and investigators could only get hold of them if they could prove they had good reasons for suspecting tax evasion.

"The ultimate end game of this is that secrecy cannot be defended any more," says Kinner Lakhani, Deutsche Bank's head of European bank research. "When that's eliminated, you get a level playing field between offshore and onshore."

Along with this is the emergence of public anger directed at anyone using offshore structures, even if completely legally and legitimately.

The Panama Papers — a trove of 11.5m documents — saw several high-profile politicians and celebrities criticised for using offshore structures to reduce their tax bills.

Prime ministers, film stars and footballers were among those named in the Panama Papers, and subsequently found themselves splashed across the media.

Mr Thompson says this furore has discouraged clients

> 'Pretty much wherever you are in the world, you're going to be reported back to the host nation'

from using offshore structures.

"Let's be honest — whenever people say they have an account offshore, the immediate thought is that they're avoiding tax," says Mr Thompson. "There's a stigma attached."

Pictet & Cie, Switzerland's largest independent private bank, last year said it would allow its clients to domicile their wealth in the UK for the first time — a move it said was being demanded by its clients in the face of "increasing stigma".

In turn, falling demand from clients has made the difficulty and expense of offering offshore services less worthwhile for those in the wealth management industry, especially as regulation and international reporting requirements increase in onerousness.

"You have got the general perception, from the provider side of things, [that offering offshore services] is not particularly profitable," says Simon Basharoun, a financial planner at Investec Wealth.

Mr Basharoun adds that dealing with non-UK-domiciled clients requires "very specialist" skills, while increasing focus on tax regimes from politicians was causing instability and uncertainty.

"There's not a Budget that goes by where we don't think the rules around offshore might change," Mr Basharoun adds. As a global trend, the transfer of wealth from offshore centres to onshore is set to hit wealth managers hard.

A report from consultancy Oliver Wyman and Deutsche Bank predicts that wealth managers will lose $13bn of annual revenue as a result of the outflows linked to the tax crackdown, which will make it harder for the wealthy to use offshore accounts to avoid paying tax.

The feeling among UK wealth managers — even smaller ones — is that the political focus on tax evasion can only intensify as time goes on.

Jersey: traditionally a centre for offshore services

Hugo Greenhalgh

Wealth managers shun the digital revolution

There's a digital revolution sweeping through the wealth management sector — so why are so many traditional firms turning their backs on it?

A tiny minority of wealth managers surveyed by Wealth-X this year say they plan to offer robo-advice to their customers, despite an increasing number of nimble, digital upstarts entering the wider market.

So what does it involve? Of course, you don't actually hand over control of your finances to a robot. The "robo" moniker stems from the fact that algorithms — not an expensive relationship manager — will decide how to structure your investments.

Expensive offices are replaced by digital platforms. Instead of a new client meeting followed by a decent lunch, most robo platforms have some form of online questionnaire to gather data about your finances and risk appetite. This will determine your suitability for a selection of different pro forma investment portfolios, often assembled by using cheap exchange traded funds (ETFs) and passive funds.

Many entry-level robo advisers are aimed at the "Henrys" of this world — high earners who are "not rich yet".

Nutmeg, Wealthify and MoneyFarm have all launched low-cost online wealth management platforms in recent years, designed to scoop up this growing mass affluent market. Nutmeg, for example, keeps costs to a minimum — charging 0.75 on the first £100,000 invested and 0.35 per cent thereafter — by building risk-weighted portfolios with ETFs, which mimic the movements of various indices.

In the past year, many established wealth management brands have been developing their own version of these lower-cost services for those not yet in the super-rich league.

Last year, Brewin Dolphin, the FTSE 250 wealth manager, launched a robo-adviser aimed at investors with between £10,000 and £200,000 for a charge of 0.7 per cent of invested assets. And rival Killik & Co is set to bring out Silo, designed to attract customers who can afford to save as little as £25 per month.

This puts the wealth manager in competition with the high street banks who are also seeking clients at the lower end of the wealth bracket. HSBC, RBS, Barclays, Lloyds and Santander are all moving towards offering robo-advice.

They have a huge advantage in this market, as the rise of online banking means they have already invested heavily in tech platforms and apps.

One of the first stories I wrote as FT wealth correspondent two years ago looked at how many private banks and wealth managers were poised to launch new web or mobile apps for wealthy clients. But not all of these have come to fruition — and the pace at which the banks have adapted and improved their own online services means they are still arguably streets ahead. Within the wealth management world, firms which were "born on the internet" are similarly advantaged.

So the next stage in the fast-evolving robo market could be higher net worth clients switching their allegiance from traditional wealth managers to cheaper robo platforms.

One of the traditional firms to respond to this potential threat is UBS, which last year launched SmartWealth. With a minimum investment of £15,000, it opens the doors far wider to those who lack the £2m needed to access an account at the private bank.

"Is everything moving to robo-advice? Absolutely not," says Dirk Klee, chief operating officer at UBS Wealth Management. "But there is a need for clients to access advisory capabilities, wherever they are and with any digital tool they want."

This message of a "high touch, high tech" service that combines both the personal and the automated is gaining momentum.

Yet when it comes to robo-advice, many in the industry are adamant: "Clients are looking for relationships built over time," said one. "They don't just want to press a button on a computer," said another.

"The reality is that the wealthy families we work with place as equal importance on service as the investment element of our offering,"

> Many robo advisers are aimed at the "Henrys" of this world — high earners who are "not rich yet"

says Paul Fletcher at London & Capital. "The fee margin benefit that robo-advice provides is outweighed by the loss of service."

His point — that wealthy customers want that personal touch — is widely held across the industry. Wealth managers offer a "full service" beyond investment management, providing their clients with tax advice and succession planning, for example, that robo-advisers cannot.

The overwhelming view is that the industry would react if there was demand. But this is where the disconnect between the wealth managers and their potential market becomes more obvious. Survey after survey suggests that customers, particularly the younger generation, want more online services — and that includes automated advice.

Last year, Capgemini questioned more than 5,200 people with at least $1m of investable assets. The consultancy reported that private banks and wealth advisers were facing growing calls from younger clients to beef up their online provision by offering services such as robo-advice, mobile apps and real-time reporting (in volatile markets, the importance of the latter should not be overlooked).

Provide it, the firm warned starkly, otherwise your clients will walk.

Yet the robo-rejecting responses to the Wealth-X survey suggest that most traditional wealth managers want to prioritise their richest and most profitable clients.

For wealth managers, the question now is a simple one: should they invest more in tech, or let the cheaper robos hoover up the lower end of the market — and hope that wealthier clients won't be tempted to migrate? Whichever option they choose could potentially be costly.

And the wealthy are already using robos. Nutmeg recently took a single £5m investment through its platform. The company "regularly" gets £1m-£2m stakes placed at a time. Why? According to Shaun Port of Nutmeg, the online-only business offers a much cheaper alternative to the fees charged by traditional wealth managers — and the wealthy love a bargain as much as anyone.

This is not lost on Schroders, the asset management giant, which owns a small stake in Nutmeg.

It is possible we will see more of these allegiances, as demand for robo-advice is only going to grow — and across the wealth spectrum, not just for the mass market. As the wealthy become more tech-savvy, the robo threat is real and growing.

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