New players move in on banks’ turf

By Ruth Sullivan
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An increasing number of small wealth managers are setting up, hoping to attract rich investors fed up with poor performance and high fees.

Among recent newcomers are Crispin Odey, the hedge fund manager, James Hambro & Partners, and SCM Private, set up by Alan Miller, the former **New Star** fund manager.

“The big names will attract investors as dissatisfaction with **large wealth managers** such as private banks, continues,” says Michael Maslinski, a director of Maslinski & Co, a wealth management consultant.

Investors are looking for “greater transparency and independence”, he adds.

Some fund management groups have spotted the opportunity, and decided to make use of a good reputation to expand into the wealth management business.

David Stewart, chief executive of Odey Wealth Management, believes “smaller companies have opportunities now”. He expects to gain “people with about £0.5m [$0.8m) to £1m to invest who are disillusioned with high fees and poor returns” in the past few years.

“Some of the big banks have just been pushing products and we want to go back to old-fashioned [client-centric] wealth management,” he says. The businesses that will benefit are those offering “good quality service with a sensible cost structure”, according to Andrew Steel, chief executive of James Hambro & Partners, a subsidiary of JO Hambro Capital Management. “Private banks will have to think hard about their business model,” he says.

However, Ray Soudah, a founding partner at Millenium Associates, a consultancy, thinks wealthy investors might just sit tight in cash. He believes the wealth and asset management industry has done much damage and little to change the situation.

“They have totally failed their clients, not just over the Madoff scandal but through poor market performance. And they have not improved their performance or reformed themselves on capital preservation,” he says.

Investors do not want to lose any more money. “A lot of money is doing nothing in money funds because investors do not have confidence in banks and wealth managers,” he says.

After a decade of strong returns before the financial crisis, rich investors are focusing on capital preservation and are satisfied with modest returns from money funds, he adds.

Some managers are trying to combat the negative image of the industry through the New City Initiative, an association – set up by Stanhope Capital – made of about 20 hand-picked companies it believes follow best practice. The association is keen to repair the battered image of financial services and raise awareness there is an alternative to big banks.

So to what extent will the flurry of start-ups and fledgling boutiques erode business that has flowed into private banks in the past?

According to Mr Maslinski, small start-ups will not make “a dent in banks at first” but boutiques “are growing rapidly” and banks and bigger players will need to “do something” to regain business. He believes clients are “more reluctant to sign over authority to banks” to manage their wealth on a discretionary basis but prefer to go down an advisory route.

This is the approach Odey Wealth Management has adopted. The firm, which has £35m in assets under management onshore and about £150m offshore, charges a management fee of 1 per cent, offering investment ideas and expertise gleaned from Odey Asset Management’s research at a lower cost than most big banks wealth management divisions.

Mr Maslinski sees a 1 per cent fee as “a reasonable charge” provided there are “no further underlying charges. Overall most investors face more than 1 per cent management fees.”

James Hambro & Partners, which opened its doors to business earlier this year and has £330m assets under management, has a similar business model to Odey. “We can leverage the capability of JO Hambro Capital Management and share costs,” says Mr Steel.

The wealth manager offers a choice between a flat management fee that is “clean and up front but where we have to charge VAT for UK investors” or a mix of management fee and commission with no hidden charges. Fees range from 1.25 per cent for smaller portfolios, varying with the complexity of the portfolio and the size of the account, says Mr Steel. “Such transparency over management charges has attracted people to our model,” he maintains.

Mr Miller at SCM Private, set up last year, has also campaigned against hidden fund management charges that can push total costs to about 2 per cent.

While transparency and competition on fees and the promise of a fairer deal is attractive, Mr Maslinski believes small start-ups with big names such as Odey will probably attract “more aggressive or competent investors, attracted by [his] huge success”, rather than those looking for a trusted adviser.

Star names may do well, but Mr Soudah points out that earnings are down across the wealth management sector and many businesses are struggling. Italian banks, in particular, have been pulling out of wealth management in Switzerland, he says, with an exodus of their wealth management divisions from Lugano in Switzerland.

This has been compounded by a huge return of funds to Italy as investors have taken advantage of the country’s tax amnesties and Switzerland is no longer the stronghold of financial secrecy it once was.

Some banks, such as **ING** and **Commerzbank**, have sold off businesses, says Mr Soudah, and some smaller players are also being squeezed and may have to go down the merger route.