



UK Retail Distribution – the post 2012 landscape

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The future for private client investment managers

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The slide features a dark blue background for the main content area. On the right side, there is a rectangular inset image showing a close-up of the Rathbone logo, which includes the word 'RATHBONES' in a large, serif font and 'Established 1742' in a smaller font below it.

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The future for private client investment managers

1. Size and nature of the UK market
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UK private client investment management market – some facts

- The UK private client investment management sector remains a heterogeneous one, made up of firms with many different cultures, structures and styles
- Pool of assets managed in the UK by private client investment managers amounted to some £402bn at the end of 2009 (The City UK, Fund Management 2010 report)
- There are an estimated 465,000 High Net Worth individuals (liquid assets of greater than £500k) in the UK (previous research indicates that around 300,000 employ an investment manager). The Affluent Market (liquid assets of greater than £100k) comprises some 1.6m individuals, most of whom are served by IFA's and fund supermarkets rather than by investment managers (MDRC & Canaccord Adams)
- In 2009 the average age of a UK HNW was 56 (average age of a new HNW individual was 48). 38% of HNW are non-working and 47% are female (MDRC 2009 report)
- The importance of "old", multi-generation wealth has fallen sharply as a proportion of total HNW wealth, from 72% of the HNW segment in 1989 to 47% of HNW individuals in 2009 (MRDC 2009 report)
- Growth in the UK HNW sector has averaged 6.34% pa over the past 12 years, the highest in the EU and second only to the US in world terms (MDRC 2009 report) – although MDRC predicts little or no growth for 2010 and 2011 and underlying growth (stripping out the effect of property and financial services) over the last 12 years has probably been only in the order of 2.4%
- It is estimated that IFAs, accountants and solicitors provide investment advice to some 67% of individuals in the £1m+ HNW sector

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UK private client investment management market – some further facts

- Estimated 153 companies offering investment management services in the UK of which only half operate a traditional stock-broking model (execution only). (Canaccord Adams)
- Just over half of UK private clients' assets are managed by the top ten investment managers and the top ten include all the listed independent companies and global integrated banks
- Only 16 companies manage more than £10bn and the market remains very fragmented below the £5bn mark
- Estimated that around 60 companies manage less than £500m

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Leading UK private client investment managers

	Private client AUM (£m)				Private client AUM (£m)			
	Total	Disc.	Adv.		Total	Disc.	Adv.	
1 Barclays Wealth ¹	50,765	-	-	23 Collins Stewart Wealth Management	4,400	5,900	2,655	3,245
2 Coutts	43,450	36,933	6,518	24 GAM	4,400	5,640	5,640	-
3 UBS Wealth Management	33,800	6,422	23,378	25 Deutsche Bank Private WM ²		6,500	4,875	1,625
4 Goldman Sachs	23,780	7,134	16,646	26 BNP Paribas Wealth Management		5,500	3,025	2,475
5 St James's Place ¹	21,400	-	-	27 EFG Private Bank		5,170	3,619	1,551
6 Brewin Dolphin	21,000	12,180	8,820	28 Williams de Broe ⁴		5,000	4,400	600
7 HSBC ²	20,945	12,358	8,587	29 J M Finn & Co ¹		4,480	-	-
8 Hargreaves Lansdown	15,600	6,240	9,360	30 J O Hambro Investment Management		4,485	4,485	-
9 GLG Partners	13,992	13,992	-	31 Partners Capital		3,767	-	-
10 Merrill Lynch	13,385	5,622	7,763	32 Fleming Family & Partners		3,713	3,713	-
11 Rathbones ³	12,200	11,468	732	33 Close Asset Management		3,563	3,527	36
12 JPMorgan Private Bank	12,246	3,674	8,572	34 Rothschild		3,400	2,890	510
13 Rensburg Sheppards	12,130	8,855	3,275	35 Cheviot Asset Management		3,197	2,749	448
14 Charles Stanley	12,100	3,025	9,075	36 Towry		2,930	2,930	-
15 Lloyds TSB Private Bank ¹	11,140	-	-	37 Ruffer		2,865	2,865	-
16 Societe General PB Hambros	10,384	5,088	5,296	38 BDO Stoy Haywood IM		2,420	726	1,694
17 Smith & Williamson	9,200	7,360	5,296	39 Brown Shipley Private Banking		2,400	1,920	480
18 Newton	7,608	7,608	-	40 Seven Investment Management		2,285	2,285	-
19 Credit Suisse	6,750	743	6,008					
20 Cazenove Capital Management	6,700	6,365	318					
21 Kleinwort Benson	6,400	5,760	640					

¹ No information regarding the Discretionary / Advisory split of assets is available
² Includes HSBC Private Bank and HSBC Global Asset Management
³ Rathbones entry in PAM 2010 included RUTM AUM and has therefore been amended to more accurately reflect the investment management AUM
⁴ Discretionary / Advisory split taken from PAM 2009

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Source: Private Asset Managers directory 2010, AUM as at 31/12/2009



Smaller UK private client investment managers


	Private client AUM (£m)				Private client AUM (£m)		
	Total	Disc.	Adv.		Total	Disc.	Adv.
>£1,500m							
41 RBC Wealth Management	2,200	990	1,210	46 Shore Capital	1,770	1,593	177
42 Killick Asset Management	2,000	200	1,800	47 Raymond James Investment Services	1,750	1,400	350
43 Sarasin & Partners	1,965	1,867	98	48 Adam & Co	1,653	1,653	-
44 Thesis Asset Management	1,893	1,742	151	49 Walker Crips	1,600	160	1,440
45 Brooks Macdonald	1,852	1,833	19	50 ACPi Investment Management	1,573	1,337	236
>£1,000m							
51 London & Capital	1,450	1,160	290	59 Ashburton (Jersey)	1,080	1,080	-
52 Jupiter Asset Management	1,377	1,377	-	60 Heartwood Wealth Management	1,063	1,063	-
53 RAB Capital	1,350	-	-	61 Bestinvest	1,050	987	155
54 Vestra Wealth	1,200	720	480	62 Key Asset Management (UK)	1,035	1,035	-
55 Oldfield Partners	1,192	1,192	-	63 Ashcourt Rowan ¹	1,034	879	155
56 Baring Asset Management	1,103	1,103	-	64 Fidelity International	1,025	-	-
57 Barrett & Cooke	1,100	605	495	65 PSigma Investment Management	1,004	974	30
58 W H Ireland	1,100	330	770	66 Turcan Connell	1,000	680	320
<£500m							
67 Principal	970	970	-	74 Berry Asset Management	605	599	6
68 Spearpoint	945	189	756	75 Horizon Group	586	510	76
69 Ingenious Asset Management	865	865	-	76 Veritas Asset Management	570	570	-
70 Standard Bank	694	514	180	77 Cavendish Asset Management	550	440	110
71 JLT immia Wealth Management	689	276	413	78 Butterfield Private Bank	500	500	-
72 Ingestion Family Investment	666	666	-	79 Fiske	500	500	-
73 C Hoare & Co	650	650	-				

¹ Part of Syndicate Group Plc which also includes Savoy Investment Management, estimated FUM of

Source: Private Asset Managers directory 2010, AUM as at 31/12/2009

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Top 10 discretionary UK private client investment managers

	Discretionary AuM (£m)	Advisory AuM (£m)	Employees	Min discretionary threshold (£)
Coutts	36,933	6,158	unknown	250,000
GLG Partners	13,992	-	-	3,750,000
HSBC ¹	12,358	8,587	755	1,075,000
Brewin Dolphin	12,180	8,820	1,900	None
Rathbones	11,468	732	438	100,000
Lloyds Bank TSB Private Bank ²	11,140	-	unknown	100,000
Rensburg Sheppards	8,855	3,275	596	None
Newton Investment Management	7,608	-	383	250,000
Smith & Williamson	7,360	1,840	340	None
Goldman Sachs	7,134	16,646	162	5,000,000
Barclays Wealth³	50,764 total AUM		unknown	None

Source: Private Asset Managers directory 2010, AUM as at 31/12/2009

¹ Includes HSBC Private Bank and HSBC Global Asset Managers; data equal an average for both
² 100% discretionary AUM assumed with reference to Canaccord Adams, Wealth Management report January 2009
³ No accurate data regarding the split between discretionary and advisory AUM is available but it is assumed that Barclays Wealth would feature in

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UK private client investment management market – some observations

- Market still remains very fragmented
- Attractive demographic features exist but the market is still a highly penetrated and competitive environment with associated cost pressures (staff, compliance, technology)
- Recent corporate activity has not really consolidated the market – generally just changed parentage
- Acquisition prices have been 'full'
- Significant group of domestic and foreign institutions keen to act as consolidators or enter the UK market (e.g. Hinduja Group, RBC)
- Distribution channels key pre-requisite – alongside referrals - for successful organic growth
- IFA 'white labelling' may be on the increase
- The impact of RDR and the shape of the market post-RDR remains uncertain
- Rise of consolidators
- DFMs and IFAs services more closely linked and treated as a combined proposition through strategic alliances
- Direct to consumer propositions on the rise

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UK private client investment management market – some quotes

"Independence" has become an increasingly highly prized attribute in the aftermath of 2008's financial collapse. The fact that a private bank or private client investment management firm is part of a larger organisation and has complete operational autonomy have proved important positional and competitive advantages for many smaller and medium-sized firms relative to their bigger competitors ... [however] once the changes encapsulated in the RDR are in force ... firms that confine themselves to offering advice on investment-management related activities rather than 'whole of market' activities, such as life insurance and pensions, may have to describe themselves as restrictive service providers ... this could have a significant impact on the future evolution of the UK wealth management sector".

WealthNet

"The behavioural characteristics of the HNW market have changed substantially. The sector has evolved into the 5 "D"s – Disillusioned, Dependent, self-Directed, Disengaged and Demanding. Of these, only the "Dependent" sector is likely to take up or remain with a discretionary investment management product."

MDRC Report 2009

"HNW behaviour has undergone a radical transformation with increasing numbers of HNW individuals seeking to exercise some control on the management of their assets. Firms that offer some element of on-going client input will be able to acquire more clients than those with a single discretionary management service."

MDRC Report 2009

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Consolidation?

- Société Générale Private Banking Hambros has entered into an agreement (February 2011) to buy the private client investment management business of Baring Asset Management based in the UK and Guernsey, equating to some £1.1bn of FUM for an undisclosed sum. The deal is expected to become effective in May 2011. In a statement SGPBH advised that the acquisition is part of its global strategy to "expand through both internal and selective external growth in order to increase its presence in key established markets".
- Principal Holdings (the parent of Principal Investment Management) announced (February 2011) that they had acquired Border Asset Management for an undisclosed amount. The transaction will add another c£300m to Principal's FUM. A majority stake in Principal was acquired by Sanlam in 2008. Commenting on the acquisition Sanlam's CEO stated that "Sanlam has a strategic focus on building its UK financial services franchise ... identifying complementary acquisition opportunities is a key part of this strategy and we are delighted Principal has completed this transaction".
- Investec announced (November 2010) that it had entered into an agreement to sell Rensburg Fund Management Limited (the Unit Trust business) to Franklin Templeton Global Investors Limited (UK), a subsidiary of Franklin Resources Inc. a global investment management organisation, for a cash consideration of £45m payable at completion. Regulatory approval has now been received and the transaction completed on 20 January 2011. RFML has circa £880m of FUM therefore the price represents a very rich 5% of FUM for a business which has only average performance and has been losing net funds over the last few years! It is believed that this price was tax driven.

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Consolidation? *continued*

- In May 2010 KBC announced the sale (subject to regulatory approval, which is still awaited) of its private banking subsidiary to the Indian conglomerate, Hinduja Group for €1.35bn (c.£0.94bn). The sale included Brown Shipley which had been acquired by KBC in 1992.
- Investec had previously announced (March 2010) that it would acquire the remaining 53% of Rensburg Sheppards through an all share offer which valued Rensburg at £412m, representing a 48% premium to the share price at that date – definitely a full price! Stephen Koseff, CEO of Investec, commented that *"Rensburg Sheppards has been a good investment for Investec over the past few years and the proposal we have announced today is the natural next step for both businesses. Investec's wealth and asset management activities have grown strongly in recent times and we believe that Rensburg Sheppards will thrive as part of the Investec Group. We look forward to supporting Rensburg Sheppards and enhancing our strategic position by building an even stronger business in this core area of the market."*
- Cazenove Capital Management announced (December 2009) that it had acquired private client firm Thornhill for an undisclosed sum, in its first purchase under chief executive Andrew Ross. Cazenove Capital demerged from the broker of the same name five years ago. It is still owned by past and present employees. The company, which has £13bn under management, has a London office but no presence in Scotland. It therefore intends to use the acquisition to break into the Scottish fund and wealth management industry. Thornhill, with £600m under management, has offices in Edinburgh and London and had previously acquired the private client division of Martin Currie Investment Management, one of the longest-standing Edinburgh fund managers.
- Strong market rumour of certain non UK banks wanting to acquire established UK private client investment management firms.


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Consolidation? *continued*

- Rathbones announced (October 2009) the acquisition of a number of private client investment management portfolios from Lloyds TSB estimated at totalling £800m (31 December 2010)
- RHJ (a Brussels-based publicly traded investment company) bought Kleinwort Benson from Commerzbank for £225m in October 2009 (transaction completed in July 2010). Kleinwort Benson, which also has offices in the Channel Islands, will have more than €10bn of assets under management after RHJ also decided to buy KBC's funds business in Ireland. The rationale for the transaction would appear to be RHJ's intention to reduce its reliance on the automotive-components industry and the acquisition of Kleinwort Benson is part of RHJ's strategy to build a dynamic wealth management, specialised asset management and financial advisory services business under the Kleinwort Benson brand.
- In January 2009, following the £2.7bn joint venture deal between Morgan Stanley and Citi Smith Barney, Quilters returned once again to the Morgan Stanley stable and was subsequently rebranded Quilters ... again

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Integrated or not?

- Many models exist – vertical integration or alliances
- Integration can allow access to greater share of value chain
- Consumers need to be aware of what they are paying and for which services
- With TERs at c.3.00% or more investment managers need to be confident in delivering value to clients

The value chain



1.00%	0.80%	0.15%	NIL	= 1.95%
0% EO	0.25%	0.25%	0.40%	= 0.90%
+ underlying costs 0.65% - 1.00%				= up to 3.0%

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The IFA opportunity for PCIMs

- IFAs control 80% of UK wealth management market
- IFAs are moving funds away from traditional life and pensions funds to whole of market solutions
- RDR is acting as a catalyst for increased outsourcing of investment management services
- RDR is forecast to reduce IFA numbers from c30,000 to 10,000 focusing on wealth management - Top 5% of UK population = 3m people vs. 10,000 IFAs each with 150 clients = 1.5m people)
- Increased regulatory focus on the risks of advisory investment management and the associated risks are also forcing IFAs to consider alternatives
- Large banks and IFA businesses offer good access to large numbers of potential clients
- IFA networks offer access to large number of potential clients
- FSA platform review, platform pricing, RDR price unbundling and relatively limited platform offerings in the market place – may combine to increase IFA appetite to seek DFM platform solutions rather than selecting a tied platform

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The IFA threat to PCIMs

- Some/many PCIMs may not be able to hold themselves out to be independent making it less likely that IFA would choose to work with them
- RDR drives some IFAs out of business, causing referrals to dry up
- Some private client investment managers are winning IFA market share through (unsustainable?) low pricing, driving margins down
- Some IFAs have aspirations to develop scale of discretionary FUM and bring DFM services in-house
- Life companies and banking groups will have greater control over access to clients post RDR as smaller IFAs close in the wake of RDR
- Life companies, banking groups and others e.g. Tesco develop similar services to clients that may have dealt with IFA previously
- IFA consolidators are developing 'restricted' advice models with 'in-house' investment propositions

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Some final thoughts

Regulation	<ul style="list-style-type: none"> • Intrusive • FSCS • Transparency
Investment management	<ul style="list-style-type: none"> • Model portfolios • Growth of collectives • Risk rating – past v future • Pricing
Investment style	<ul style="list-style-type: none"> • True discretion? • Relative vs outcome-driven • Creeping inflation and low interest rate environment/need for income
Some success stories	<ul style="list-style-type: none"> • Hedge fund industry growth • Business focussed on IFA community • Businesses with clear strategies and convicted implementation

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