

## **UK wealth and investment managers launch think-tank to debate and chart the way ahead to a more equitable and transparent future**

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"The past is a foreign country: they do things differently there," wrote L.P. Hartley in the opening sentence of "The Go-Between," a novel about a betrayal of childhood innocence in pre-World War 1 England.

Nonetheless the past continues to beguile those that have pretensions to participate in or reform the banking and financial services market in the aftermath of the Great Implosion of 2008. Take all those prospective new entrants to the UK retail banking market, for example. The past seems to underpin many of their business models especially the venture headed by a cabal of former "City grandees" led by Lord Levene and Sir David Walker. Here Captain Mainwaring, the bank manager brilliantly portrayed by Arthur Lowe in "Dad's Army," the long running BBC comedy series about the adventures of a Home Guard platoon during World War 2, appears to provide the business model.

They may have a point. Of course the range of products and services that they could offer customers was relatively limited. And, prior to the 1980s, the UK banking sector effectively operated as a cartel. But Captain Mainwaring and his staff certainly appeared to know a lot about banking unlike many of their peers today, as well as the names of their customers. More importantly Captain Mainwaring epitomised integrity and the duty of care to customers (especially when it came to preventing customers taking out loans they couldn't afford to service).

The past may have been a 'better' country for merchant banking and investment banking as well. He may have played a pivotal role in helping to undermine the concept of "gentlemanly capitalism" that had provided the ethos that underpinned the workings of the City of London for the first half of the twentieth century but as Niall Ferguson's new biography shows, however, trust and integrity still provided a guiding star for Sir Siegmund Warburg, the founder of S.G. Warburg (now incorporated into UBS), as he helped pioneer a wave of innovations that prepared the way for London's renaissance as a global financial centre.

Old fashioned concepts such as integrity and duty of care to clients have also started to exercise the minds of a group of wealth managers and investment managers brought together in a new think tank called the New City Initiative (NCI) by Daniel Pinto, the co-

founder and managing partner of Stanhope Capital, a London-based private investment office with around £2 billion of client assets under management. The fact is that many individuals and institutions active in the wealth management sector did not exactly cover themselves in glory in the run-up to and aftermath of 2008's Great Implosion.

According to Mr Pinto many of the problems that culminated in the Great Implosion of 2008 had their roots in the erosion of many of the structures and values that used to typify the City of London. One of the aims of NCI is to explore ways in which these values and structures can be restored, especially within the wealth management and investment management segments of the markets, from which most of NCI's supporters emanate. To this end NCI is currently in the process of preparing three discussion papers covering the alignment of interests between financial institutions and their clients, co-investment and fees.

"It's clear that personal greed played a major role in the events that helped precipitate the near collapse of global financial markets in 2008," Mr Pinto told *thewealthnet*. "And it is clear that the nature of the firms active in the market helped accentuate these tendencies. The imperative to maximise short-term revenues and profits, for example, invariably put great emphasis on the need to sell. And this was not always to the clients' advantage."

In this respect the partnership structure, which used to be the dominant form of business structure in the 'old' City may have provided a more efficacious structure within which to manage client's wealth.

"Corporate structures can play a critical role in this respect." continued Mr Pinto. "The nature of the corporate structure employed by a wealth management firm can often have a significant impact on the manner in which it functions. And within this context a partnership structure does have a number of desirable attributes".

With a limited volume of capital supplied by the partners caution, an aversion to risk, and a focus on the long-term becomes almost an imperative, unlike the case of shareholder-owned institutions. In this respect a partnership structure may also provide a much better alignment of interests between the client and his or her investment/wealth manager.

Mr Pinto can speak from personal experience in this respect. As a banker at S.G Warburg he witnessed first hand what could happen when a traditional partnership was absorbed by a shareholder-owned institution, in this case Swiss Bank Corporation (SBC) and then UBS.

A better alignment of investment/wealth manager interests provides the focus to the first of the NCI's position papers, which should be published by the end of the summer. "Co-investment" and client

fees provide the subjects for the second and third papers.

For Mr Pinto co-investment is a relatively simple idea. Managers should never put clients into investments that they do not also have some exposure themselves.

"The fact that the manager is also investing some of his own wealth along with that of his client always helps focus the mind," says Mr Pinto. Equally pertinently investors should not be placed in investments for which the manager is paid a consideration, or commission.

When it comes to fees these should also be structured to better align client and manager interests as well as being made completely transparent. But as Mr Pinto concedes this a much less straightforward subject, not least because fee structures that appear to align client and manager interests may turn out to be something else in practice.

Nonetheless, NCI provides a forum within which these and other topics can be debated.

So far NCI has attracted interest and support from around 25 organisations, half of which are active in the wealth management sector with the remainder drawn from the investment management sector. In addition to Stanhope Capital other wealth management firm supporting the initiative include Fleming Family & Partners (FFP), Iveagh, Lord North Street, Sand Aire and Veritas Wealth.

NCI supporters drawn from the investment management sector include Dalton Strategic Partnership, Odey Asset Management and Sloane Robinson.

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