Services for High Net Worth and Family Offices: Case Study C
Exploitative Private Banking Relationships

Situation

- A young adult received control of his trust upon reaching a certain age, and his counsel asked us to review his portfolio holdings and advisers. Most of the trust was managed by three advisers: an equity manager in a separate account, and two private banks.

Findings

- Excessive fees: Private bank management fees of 0.3% to 0.5% were presented with the implication that they were the only fees. <u>In fact, we ascertained that all-in fees were 3% to 5% per year</u>; we thought fair value all-in fees should be 2% to 2.5% per year for the offerings provided.
- Conflicts of interest come with a heavy price: 30% to 60% of the assets were allocated to in-house managers. Much of the rest were allocated to hedge funds, active managers, and private equity managers that had distribution and trading relationships with the private banks or their parent organizations. Moreover, private banks often allocated to managers whose fees were materially higher than what they would charge to institutional investors, with fees comparable to retail rates.

Resolution

- While the bankers had generally adhered to the appropriate market risk profile, <u>we recommended some low-cost changes</u> that would greatly increase the consistency of the portfolio's return profile. Among these actions included <u>mitigating unnecessary exposures to poorly performing managers,</u> which were subsequently terminated.
- Manager Analysis advised the client to establish his own family office. We determined that the fee savings alone would justify the expense of hiring a team of two employees, dedicated exclusively to the family's specific needs. <u>We also presented a detailed plan for reducing allocations at private banks, and to transfer discretion to the family's own dedicated office team.</u>

Want to learn more? Please contact Chris Cutler, Tom Donahoe or Safia Mehta at 917 287 9551.