Enodo.

Briefing
November 2020

Wealth Management Insights: Negotiating your fees

For
Your family ✓
Your firm ✓
Your society

Reading time
7 minutes

Enodo can help
By managing a selection process for banks or advisors, that includes levels of fees

By reviewing existing fee arrangements, including identifying any hidden fees, and supporting fee negotiations

By analysing your investment strategy, reviewing appropriateness of individual instruments, including from a fee perspective

Executive summary

We are sure there have been times when you've heard a recommendation from an advisor and wondered what was really driving it? We reveal some of the true motivators for your wealth management firm or private bank. The things that clients sometimes don't know, but we think you should. In the first of a series called Wealth Management Insights, we look at the important topic of fees. Naturally, everyone needs to earn a living and wants to be paid fairly for their efforts. But you should know what you are paying, and why? Unfortunately, advisors are not always good at providing complete transparency.

For clients advised by firms in the European Union (including the UK for this purpose), the Markets in Financial Instruments Directive (MiFID) has certainly driven some transparency. In its original iteration, implemented in 2007, there were important steps to make commissions transparent. The more significant changes came in 2018, with the implementation of MiFID 2. With these regulations, it was no longer possible for advisors to receive commissions on any products – all advisory fees had to be charged transparently and had to be agreed upfront. Even with the support of regulation, the negotiation of fees is still critically important. We believe you should consider the following:

- **Establishing your fee landscape** for your needs, examining the landscape of firms you might engage
- **Approaching a range of different banks or advisory firms** that will offer the required services and **finding out what they would *really* charge** for the size and complexity of your portfolio.
- **Watching out for additional or hidden fees**
- **Considering the actual instruments that you will hold**
- **Examining spreads on loans and foreign exchange** which can be significant and are sometimes hidden
- **Considering all-inclusive fees** for certainty
- **Being aware of stamp duty**

We offer some important factors to consider when negotiating related to the type of firm and the relationship manager.

We are sure there have been times when you've heard a recommendation from an advisor and wondered what was really driving it? We are going to reveal some of the true motivators for your wealth management firm or private bank. The things that clients sometimes don't know, but we think you should. In the first of a series called Wealth Management Insights, we look at the important topic of fees.

Naturally, everyone needs to earn a living and wants to be paid fairly for their efforts. We are sure it's the same for you, in your business. But – we suspect – you'd like to know what you are paying, and why? Unfortunately, advisors are not always good at providing complete transparency.

New regulation might have helped

For clients advised by firms in the European Union (including the UK for this purpose), the Markets in Financial Instruments Directive (MiFID) has certainly driven some transparency. In its original iteration, implemented in 2007, there were important steps to make commissions – otherwise known as inducements – transparent to clients. The more significant changes came in 2018, with the implementation of MiFID 2. With these regulations, it was no longer possible for advisors to receive commissions on any products – all advisory fees had to be charged transparently and had to be agreed with the client upfront.

Although, new regulation might (sadly) not have been enough

That all sounds good – transparent fees for advice. Although, that doesn't tell the whole story. What if your relationship is with an advisor outside the European Union? It is likely that such transparency does not apply, and it is possible that your advisor is not fully disclosing the fees that they receive for recommending particular products. Indeed, their advice may be biased by products that attract higher levels of commission. The commonly used jurisdictions, outside the European Union, that offer some levels of protection against this practice are Singapore, Switzerland and the United States, but care should be taken nonetheless even in these, and the appropriate probing questions need to be asked. Outside of these jurisdictions and the European Union, the risks of being mistreated are very high indeed in the other usual wealth management locations.

Back in the European Union, another recipe for fee confusion arises when a client is upgraded from being a retail client to a professional client. Retail clients attract much higher levels of statutory/regulatory protection which should not be sacrificed lightly. There may be an incentive for a client to upgrade to professional status to access more sophisticated institutional-style products, but any client should challenge themselves over the necessity to do this, given the protection lost. Another by-product of professional status is a relaxation of the rules around fees. Whilst these still need to remain fair, they do not need to be fully transparent – indeed, the regulatory perspective is that as a professional you should be able to calculate the level of fees, and challenge if necessary. For many reasons, this is often easier said than done.

Finally, whether in the European Union or not, whilst the fees for advice might be transparent, product manufacturing costs may be less so. In particular, where the institution you are dealing with is both advisor on and manufacturer of the product you are using. To start, there many an incentive for an advisor to recommend the product manufactured in-house, leading to higher fees for the institution. Yes, there could be a requirement to provide best advice (i.e. to only recommend an in-house product if it is supposedly the best), but there are many tests and dimensions as to whether a product is truly best. It is critical to cut through the marketing literature. Then, there is the question of hidden fees. These are especially prevalent with structured products or foreign exchange instruments. Here, the investment bank division of your wealth management advisor might be embedding a plethora of fees for structuring or use of its balance sheet. It is critical to analyse whether these are reasonable.

Absolute levels of fees need to be reasonable, and you *can* negotiate

Even when fees are fully transparent, they need to be reasonable in absolute terms. In a low inflation, low interest rate, low return environment where a balanced portfolio might only achieve 5% or 6% per annum, a fee of 1.2% per annum might be 25% of your total return.

Then, there are potential embedded fees in funds, structured products or foreign exchange instruments on top. How do you stop fees being a drag on your total return? After all, paying unnecessary fees of just 0.2% p.a. over 10 years on a USD25m portfolio, equates to USD500,000 – wouldn't you rather those funds were in your own pocket or perhaps that of a charity, rather than supporting a bank's shareholders?

- Firstly, **establish your fee landscape**. Whatever the size of your portfolio, this should never be above 1% per annum, and should more likely be between 0.3% and 0.6% per annum depending on the services offered. Study the websites of firms you are considering, consult friends and colleagues, consider engaging a firm to support you with selecting the right firm

- **Approach a range of different banks or advisory firms** that will offer the required services and **find out what they would *really* charge** for the size and complexity of your portfolio. Do not settle for the official tariff. In certain circumstances, discounts of up to 60% might be achievable

- It is critical to **watch out for additional or hidden fees**. These fees come in many forms: introductory, initial, custody, safekeeping, cash management, payment transfer, account, relationship, brokerage, transaction, structuring, minimum, exit and closing fees. It is important to simulate your activity over the year and calculate the true fees that you will incur, including all the different types of fee. When you compare different firms, make sure you are comparing like with like

- Then, **consider the actual assets or instruments that you will hold in the portfolio**. There is a greater cost to holding particular instruments – an active equity fund might have total costs of 1% per annum versus 0.3% per annum for a passive fund, whilst a structured product might attract costs of 3% - 5% once all manufacturing costs are taken into account. It is not to say that these instruments are unsuitable, but it is about deploying them in the right place. For example, investing in an active fund in a market where it is hard to beat the index (e.g. US larger companies) may not make sense, where a low cost index tracker will achieve a similar result. Think about what makes sense for any particular context and challenge the investment strategy of your advisor

- **Spreads on loans and foreign exchange** can also be significant and are sometimes hidden. It is worth establishing upfront what these will be. Whilst not everyone makes use of a lending facility, virtually all will need to transact foreign currency, and this is therefore particularly important

- **All-inclusive fees** are sometimes offered and offer useful certainty. However, don't accept them at face value – actively compare what your likely transaction pattern will be, and what a transaction-by-transaction approach will cost

- **Stamp duty** is not a fee, it is a tax. It is levied on certain transactions, in certain jurisdictions (e.g. up to 0.15% on equity transactions in Switzerland). When comparing different booking locations for your assets, you must take tax into account, as again it can be a performance drag

In all of this, you should of course negotiate. For clients with USD10m or more of investable assets, discounts are often achievable. Not surprisingly, your strongest negotiating position will be when you have several banks competing for your business. Also, if your relationship manager is newer to an institution, they may be more willing to discount, as they build their client base. Small or mid-tier firms may be keen to grow market share, and again may be more flexible. Bear all of this, in mind.

Conclusion

Be critical, negotiate hard. Especially in a low return environment, don't pay too much. Contain fees to the right proportion of your total returns. And ensure that you are rigorous in the questioning of your advisors. Remember, achieving the right level of fees is critical to any successful investment strategy. After all, fees come directly from your returns. Enodo can support you in your fee negotiations, ensuring that you are treated fairly by banks and wealth management firms.

About the authors

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Nick has over 20 years of experience in wealth management, predominantly spent at UBS where he was a Managing Director. He held a number of senior leadership roles, including Head of Wealth Management for Global Emerging Markets in London, where he led a sizable business advising wealthy families in Central & Eastern Europe, Middle East, Turkey, Israel, Africa, Latin America and Asia-Pacific.

For six years, Nick was Head of Investment Products and Services where he led the investment management, capital markets, alternative investments, lending and wealth planning functions, responsible for over USD50 billion of client assets, and a sizable lending book. He also founded the client philanthropy unit in the UK, which supported clients in maximising the strategic impact of their giving. He has been a regular media commentator. Over the years, he has also maintained a strong academic interest in business psychology.

He has served on numerous non-profit boards and is currently Vice Chairman of the governing body of Royal Holloway, University of London, amongst the top 25 in the UK and 250 globally. He also chairs the committee overseeing the university's USD100 million endowment.

He holds MSc in Organizational Psychology and MBA in Finance degrees from the University of London, is a Chartered Wealth Manager, Chartered Fellow of the Chartered Institute for Securities & Investment and Member of the British Psychological Society. He was elected Fellow of the Royal Society of Arts for his work in philanthropy. He is also a part-time Doctoral researcher in organizational psychology and family-owned business at Durham University.

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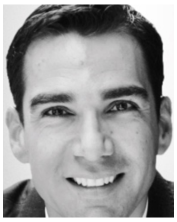

Baris has over 15 years of experience in wealth management and investment banking in London, Zurich and Frankfurt. Between 2006 and 2020, he worked for UBS, where he was a Managing Director.

He served as Head of the Global Family Office, Ultra High Net Worth Emerging Markets and Financial Intermediaries units for UK and Jersey, offering wealth management, structuring, lending and investment banking solutions to the largest clients of the firm. His team was entrusted with over USD12 billion of client assets.

Prior to this, he was responsible for various significant teams serving wealthy families in Central & Eastern Europe, Middle East, Turkey, Israel, Africa, Latin America and Asia-Pacific.

Before joining UBS, Baris was a research assistant to the Chair of International Banking and Finance at the Goethe University Frankfurt and a visiting scholar in Finance at the Wharton School, University of Pennsylvania.

He published papers on global stock exchanges in peer-reviewed academic journals, including the prestigious Journal of Banking & Finance, and was a regular commentator in the media.

Baris holds a Doctoral degree in Finance from Goethe University Frankfurt and the Diplom Kaufmann degree from the University of Regensburg, as well as an MBA degree. He has completed the Chartered Financial Analyst and Financial Risk Manager programmes.

The story of Enodo

Enodo is the Latin word to explain, literally to *unknot* or *untangle*. This encapsulates our vision – to bring clarity to the complexity of being wealthy.

Our founders have had the privilege of advising some of the world's wealthiest families. They've observed first-hand the liberation and opportunity that wealth can bring – unifying families around a common purpose, creating real economic impact via a family business, or contributing to wider society through audacious philanthropy.

At times, they've also seen the stress and confusion that can result. They've witnessed family disharmony, miscalculations in family business or investment strategy, and the hugely detrimental impact of working with advisors who put their own interests first.

Our founders have engaged in the discipline of advanced academic research. Their own analysis of peer-reviewed academic literature across the disciplines of finance, economics and business psychology, combined with their deep professional experiences, have allowed them to arrive at new perspectives on how *to be wealthy* and how *to manage wealth*.

The result of their thinking is the Enodo Leadership in Wealth™ advisory framework which supports wealthy families in using their wealth to lead across all the dimensions of their life – *family, firm* and *society*. Amongst other things, their framework includes:

For your family

- Family governance and family office set-up
- Investment risk and asset allocation – including family business assets and debt
- Chairing a family investment committee
- Selecting the best investment managers
- Analysing investment opportunities, including alternative investments and recent innovations (e.g. cryptocurrencies)
- Understanding the impact of investing in your passions, such as art and collectibles
- Monitoring of performance and risk
- Guiding and analysing where you are in dispute with your investment advisor

For your firm

- Organizational culture and performance
- CEO / founder succession and role of family members
- Financial optimisation – including debt, hedging and foreign exchange
- Reviewing your equity and debt capital market opportunities
- Corporate and social responsibility

For your society

- Philanthropy and impact investing
- Establishing a family foundation

The Enodo Goal-based Asset and Liability Allocation (GALA) Modeller™ offers ground-breaking insights into optimal strategic asset allocation – examining the risk characteristics of a family business shareholding and analysing tolerance for risk from psychological personality profiling. You can experience a shortened version of this powerful tool here.

At Enodo, we offer rigorous, independent and intelligent advice to wealthy families around the world. We aspire to be your trusted partner, wherever life leads you.

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