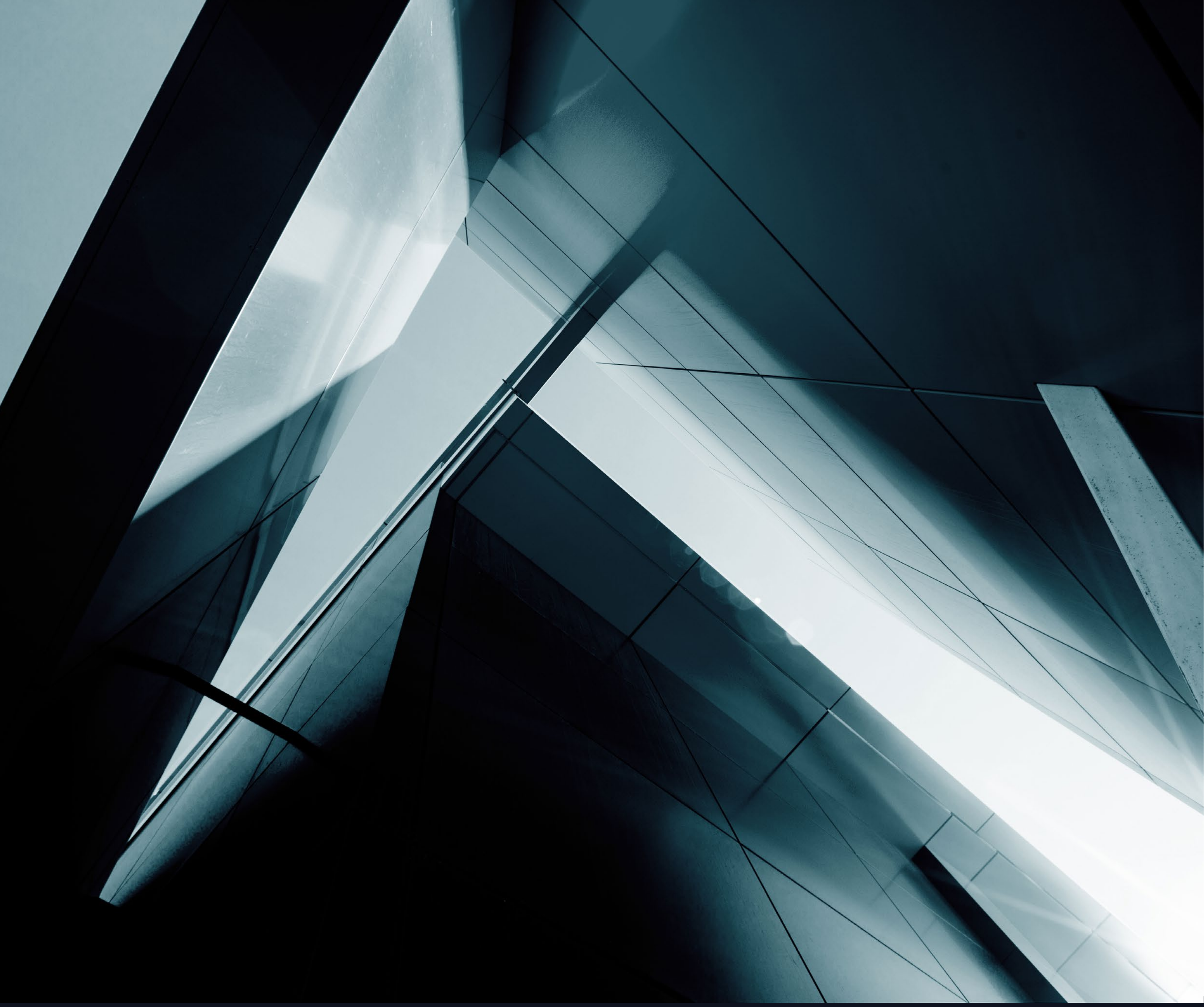


The adviser's guide to **high-net-worth clients**

Introduction

The High Net Worth (HNW) investor segment presents a major opportunity for Australian financial advisers. It also presents a challenge — HNW investors differ from the traditional retail investor and require a more nuanced approach to investment strategy and advice.

The aim of this guide is to provide advisers with a comprehensive overview of the HNW investor market, giving real life examples of how successful wealth professionals are building thriving practices by working with these clients.

There are currently 625,000 HNW investors in Australia who collectively control $2.82 trillion in assets.

Praemium in conjunction with Investment Trends released research on the HNW segment and identified critical trends that can help advisers looking to target these clients.

The research identified three categories of HNW investors the emerging affluent ($1m-$2.5m of investable assets*) the established affluent ($5-$10m) and the Ultra High Net Worth (UHNW) with $10m+ of investable assets.

The research found that the main sources of wealth for emerging and established HNW investors are regular salary, profits from investments and property investments.

Meanwhile, 20 per cent of HNWs stated their wealth came from inheritance, with the emerging affluent ($1-$2.5 million) segment ranking highest in this category. The emerging affluent tend to be slightly younger with more of their wealth created through wages.

At the other end of the scale the ultra-HNW (UHNW) investor, is more likely to own their own business, have their own SMSF and rely less on salary for wealth creation than their counterparts.

Praemium is an established player in the space, and has been the platform of choice for Australian HNW investors and their advisers for over 20 years.

Matt Walsh Head of Private Wealth Relationships at Praemium explains that the platform was built on strong relationships with some of Australia's largest stockbroking and private wealth firms.

> “Praemium's technology was built to service the unique needs of the HNW market.”

Mr Walsh says.

“We have a deep understanding of this market segment through decades of collaboration with all areas of wealth management. This has allowed us to build a platform that meets the needs of the HNW and UHNW investor and their advisers.”

There are only a handful of platform providers in Australia who can successfully service the HNW market. Advisers operating in this space and looking to deepen their relationships with HNW investors should consider how their platform is helping them reach their goals.

The **opportunity**

While HNW investors have become more positive about financial advice since 2020, the majority (60 per cent) did not seek advice in the past 12 months.

These figures indicate a huge opportunity for advisers to position themselves to target HNW individuals — provided they understand the segment. Only 9 per cent of HNW individuals would consider using an adviser for all their investment decisions.

However, 60 per cent identify as a 'validators', preferring to only seek advice to access certain investments, for technical advice or for a second opinion on investment decisions.

> "This segment of HNWs is confident and comfortable in making their own investment decisions and see the financial planning relationship as a collaborative partnership. One where they can seek access to investment opportunities, expertise, and/or technical knowledge, rather than as a source of full advice facilitation,"

Mr Walsh says.

However despite a preference for making their own decision, many HNWs note they have unmet advice needs. Inheritance and estate planning and tax are the most common need areas (cited by 34% and 32%, respectively), while retirement planning is a growing concern (28% cite this need up from 24% in 2021).

This presents a real opportunity for advisory firms wishing to grow their exposure to this sector, to build a client value proposition focused on supporting these advice needs.

"Holistic advice models may conflict with the service a HNW investor is looking for but this can be overcome by developing an advice model which ensures the HNW investor feels engaged, informed, part of the advice process and importantly can blend self-directed investment activities with those outsourced to an advice specialist.

"The Client Value Proposition (CVP) narrative used will need to articulate how the investor will not lose control of their decision making and maintain direct involvement in the investment process, but also demonstrate the value that can be provided through strategic advice on tax and estate planning." Matt Walsh adds.

With HNWs intending to pass, on average, 70% of their wealth to their children, Mr Walsh believes establishing trust and building relationships to support the inter-generational wealth transfer will help to deliver real value to HNWs and retain the next generation of clients.

"Advisers who focus on delivering the highly personalised digital advice service that this investor segment, and their children, have come to expect, will be well positioned to capture this opportunity and grow their client base."

A different **type of advice**

Rather than being fed information, HNWs prefer to work collaboratively with their adviser. It is not uncommon for a wholesale investor to have multiple advisers handling different aspects of their portfolio — something those new to the space should keep in mind.

Jason Chequer, partner and head of advice at Sayers Group, has been working with HNW clients for his entire career. He says many HNWs are very smart but simply don't have the time or the framework to make investment decisions.

"They are really looking for someone to work alongside them, and that has really been our philosophy," he explains. "Rather than tell them one way, or tell them a way based on the toolkit we've got, it's about helping them discover and problem solve with them and give them options."

Mr Chequer says much of the dissatisfaction with the wealth industry among HNWs has been driven by a format for advice that works for the adviser but not so much for the client.

There are also common characteristics among HNWs of which advisers should be aware. For a start, HNWs are moving beyond preservation and capital growth. Often, they are looking for innovation and unique opportunities.

"They are looking for access to different asset classes but are struggling to find wealth professionals who can advise them outside of their remit, which is the traditional portfolio," Mr Chequer says.

With this in mind, some advisers who are currently more retail-focused will need significant upskilling to target HNWs. There is a greater level of investment expertise and sophistication required.

"It is not the product orientation; it is not the APL approach. It is actually about listening to what the client is after. HNWs are looking for quality advice and a personalised service," Mr Chequer says.

> Investment strategy and advice have traditionally been separated, with fund managers focusing on investment and IFAs focusing on advice. However, what HNWs are really looking for is a group that can provide both.

A different **type of advice**

“The depth and comprehension across the broader wealth piece is what is required,” Mr Chequer continues. “You need to bring together investment strategy and advice at a high level. That is what the HNW market is seeking.”

Felicity Thomas and Candice Bourke are financial advisers at Shaw and Partners. They have worked together, as a team, for over seven years.

“We look after HNW and ultra-HNW families, family offices, not-for-profits and retail clients,” Ms Thomas says.

“HNWs are very focused on solutions to their problems and they don’t have a lot of time.”

“HNW clients typically have a decent knowledge of investments, so we are able to have direct discussions about investment strategy. There is a lot of assumed knowledge.”

Ms Bourke says “HNWs are time poor. They don’t like filling in forms and administration. Making the advice process as easy as possible is important.”

“Tax minimisation and structure are also really important, so we work closely with their accountant, creating a family office environment.”

Building trust is critical and can take time. But once that trust is built, there are plenty of opportunities to win more business, says Ms Bourke.

Two types of **HNW investor**

Not all HNW investors are the same. While they are traditionally grouped by dollar value of investable assets, this is not always a practical way to consider your clients.

Will Douglas from Koda Capital believes there are really only two different types of HNW client: detail people and non-detail people.

"The non-detail people are very much high level. They have trusted us to manage their wealth. Of course, we will report on, review and discuss their wealth affairs on a quarterly or six-monthly basis - but they are generally happy to stick to an overview of their circumstances, goals and objectives, portfolio performance, and a general chat about markets," " Mr Douglas explains. He estimates that around two-thirds of his HNW clients are non-detail people.

"The other type of personality, the detail person, seeks a much deeper engagement with the management of their wealth,," Mr Douglas says.

"They want to understand all the myriad of inputs that go into our recommendations – our analysis of the macro-economic settings, our views on asset classes, strategy selection and our views on risk and reward trade-offs. For these clients, their financial success has often been dependent on the need to be across detail - they want to understand – deeply – the process that leads to that advice."

The HNW space is not formulaic. Providing a personalised service is essential, which means being flexible and giving clients and time they need when they need it.

Mr Douglas says courting a new HNW client can take six to 12 months, during which he builds trust and introduces them to other people from Koda Capital's investment team, philanthropy team and board of directors.

"When we meet with a prospective client, their wealth represents their life's work, and their hopes and aspirations for their children. In this context, you need to develop great trust if you are to advise the family on this deeply precious asset. Whilst individual trust is important, clients need to trust the whole of the firm that sits behind the adviser" he says.

> When it comes to UHNW clients — those with more than $20 million in investable assets — it is often only a portion of their total wealth an adviser has a mandate for.

"UHNWs have often established their own networks, and as a result they will be referred to a range of wealth advisers, what we observe is that UHNWs tend to consolidate to between 1 and 3 advisers over time," Mr Douglas says.

"Advisers need to get comfortable with the fact that they may not be managing all of a client's wealth. Whilst that is not necessarily a bad thing, it adds an additional challenge to the job of an adviser. If a client has three advisers then ideally they should be offering complimentary services and investment opportunities. If each advisor is building similar investment portfolios, then the client may be losing the benefit of scale and any diversification benefits. Advisers should be addressing this discussion with clients".

Digital advice

HNW investors desire a single source of their wealth, which provides advisers with opportunities to harness the technological benefits of an investment platform that can manage non-custodial assets and use data feeds to provide a total wealth view for their clients.

"Outside of online broker relationships for direct shares, this sector has not successfully embraced technology, with 53 per cent of HNW investors using a spreadsheet to track their portfolios, often due to an inability to gain a single view of their entire wealth, missing out on the benefits of online portals and apps altogether," says Praemium's Matt Walsh.

"A great opportunity is available for advice firms to build a model attractive to the HNW validator, using technology to develop a hyper-personalised service, with a strong communication and engagement strategy and offering portfolio reporting services to assist an investor to manage their whole of wealth, even if they are not advising on the complete investment portfolio."

The main perceived benefits HNWs have of investment platforms include annual tax reporting taken care of, simplicity of record keeping and reduced paperwork. Those using investment platforms cite their reporting and administration needs are taken care of but would like additional support with domestic direct equities (37 per cent), offshore direct equities (26 per cent), property (35 per cent) and managed funds (27 per cent).

Intergenerational advice

Inheritance and estate planning is one of the major unmet advice needs of HNW investors.

Felicity Thomas of Shaw and Partners has worked with a number of different HNW clients on intergenerational advice. Some have transferred part of their wealth to their children in an effort to get them to understand money while others have set up charitable programs.

Jason Chequer from Sayers Group has been working with a family across two generations on an intergenerational wealth transfer for the past eight years.

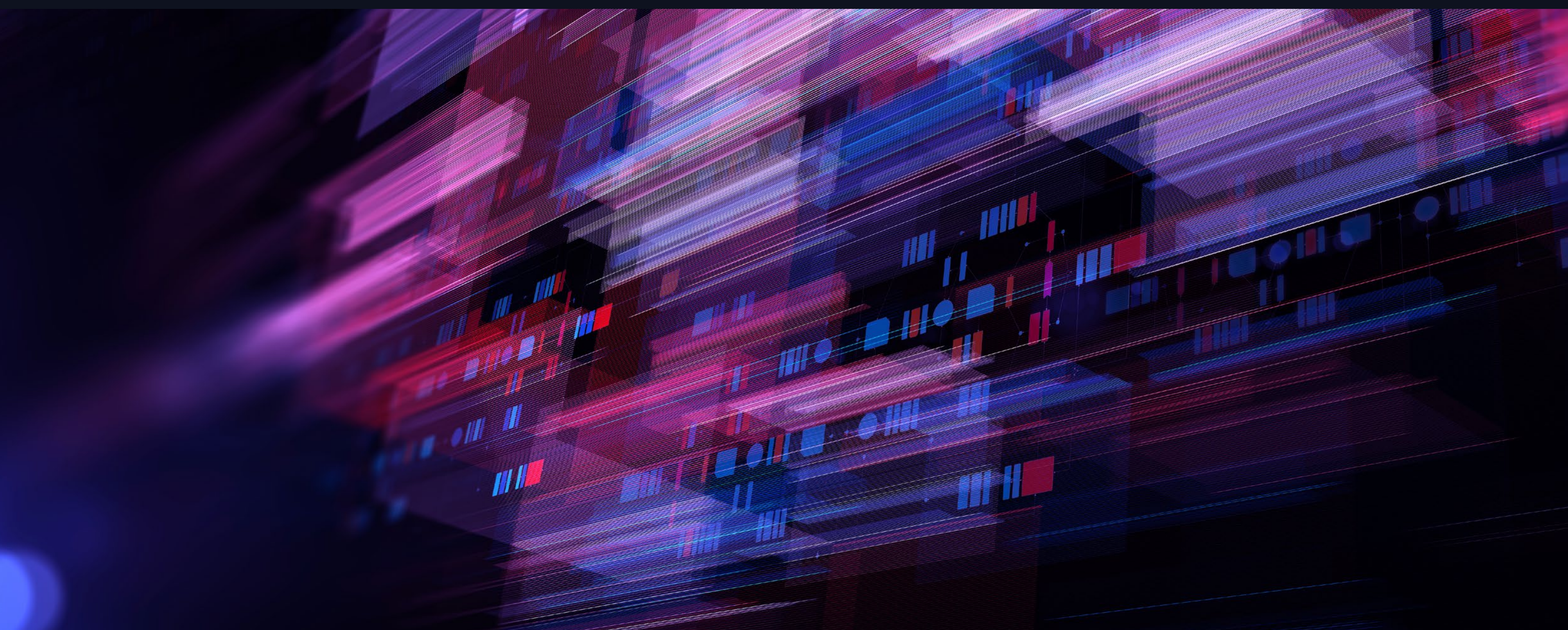
“The next generation are in their fifties and sixties, which is not unusual,” he says. “That is where we lean in and focus on the family as much as the finances.”

It’s all about relationships, he says, which can take a lot of time and effort.

“The emotional intelligence required to work with families on intergenerational wealth transfers is far more than the technical skills that most advisers would have built out over time,” he says.

“Clients will always seek you out for the estate plan or the investment strategy. But if you start delving into how the family works, what the family stands for and what the vision is for the future, most of those questions they can’t answer. There are very few advisers who are willing to commit across a family and have a relationship with individual family members and the collective.

“It takes more time, more effort and more emotional energy.”



The HNW Adviser

Will Douglas is a financial adviser and partner at Koda Capital. Prior to Koda, he advised clients at UBS Wealth Management, Merrill Lynch and Ord Minnett.

Based in Brisbane, he has a team of five serving 40 clients, 25 per cent of which are not-for-profit institutions. The remaining 75 per cent are HNW individuals and families.

“Non-profits investment funds are mostly overseen by trustee boards. For this reason, they are very much focused on risk and process, but also generating investment outcomes that are consistent with their values,” Mr Douglas says.

Koda has a focus on philanthropy. It is one of the four pillars of the firm, the other three being investment, family & leadership, and structuring & tax.

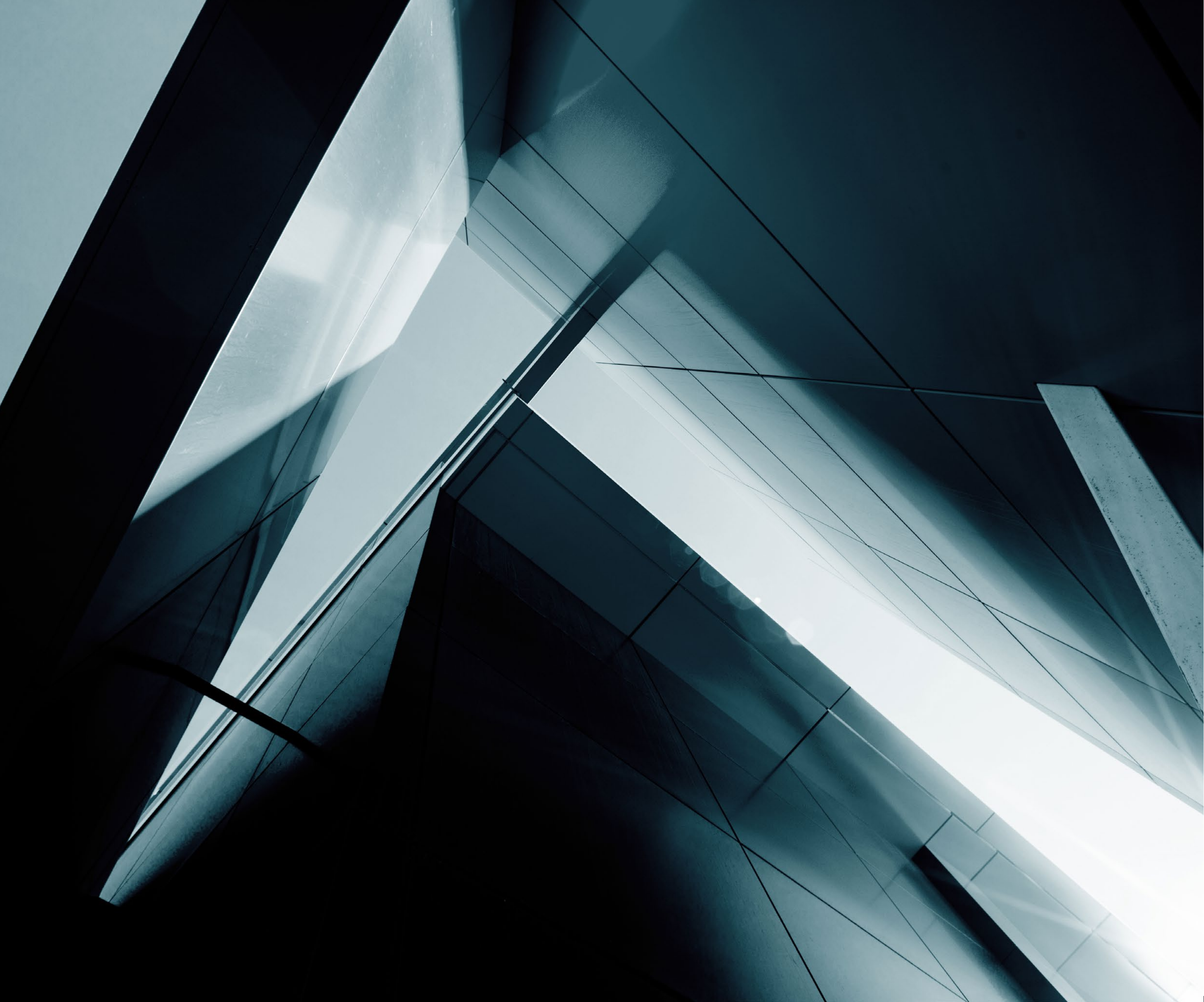
“If we start at the beginning, even wholesale clients want to make sure they are not paying any more than they need to be, so tax structuring if important,” Mr Douglas says.

“The next part is investment, so you want to make sure their investments are aligned with their own interests but also ESG, impact and responsible investing,” he says.

“At some point people generally start thinking about how they can help others. Those with means look to philanthropy, which could be donations or setting up a public or private ancillary fund.”

Finally, once these three pillars are in place, HNWs look at their own families and passing on their wealth to future generations — the fourth pillar in Koda’s model.

“These four key pillars really represent what we think is almost a natural journey for any client, whether it be retail or wholesale,” Mr Douglas says.



The research findings are taken from the Investment Trends High Net Worth Investor Survey 2022 based on a survey of 1387 HNW investors. HNW investors are defined as having over $1m in investable assets clear of debt and excludes superannuation, business and residential property but includes SMSFs.

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