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"In order for a client to really open up and talk about his affairs, he has to trust you." – Winston Monale

WINSTON MONALE

Guardian of Wealth

"If we have the type of client that really opens up and shares his full position with us, all his assets and liabilities, the history of them, where the risk sits, we can match up the risk to the cash flows, we can manage his affairs a lot better, because ultimately what we seek to do is protect our clients' assets and grow them."

I'm sitting with Winston Monale, Head: Absa Wealth Management, and we're talking about wealth management, and the duty of care and trust that forms the cornerstone of the client advisory relationship.

Monale explains the basics of wealth management to me, "Laymen often assume that you are going to create wealth from investing. That's not necessarily true. You could – if you are a professional investor - but actually a lot of people have assets, and they want to protect them, and they want to grow them. They want to protect them against inflation, protect them against asset price deterioration, and a whole number of other things. That's where we come in, to provide that plan, to understand what the client is trying to achieve, understand his objectives and build that plan with him."

It's about creating a long-term strategy for each client, "Long-term is what our industry, and our business is about. If a client's intent is to turn a quick buck overnight, then we're not the business or the partner for him. We believe a lot of wealth is destroyed quite easily by taking the wrong decisions, so we do take that long-term view."

He explains that Absa Wealth works with high net worth clients, who have a minimum of R10 million in investable assets. "It doesn't have to go into the stock market, but you've got to be able to have R10 million to invest somewhere." Their clients come from the top one percent of South Africans, from a pool of just under 40,000 people, whose personal net worth is in the region of R20 million and up. "These are the wealthy of society. They have created that amount of wealth either through hard-work, entrepreneurship or inheritance," says Monale. "We look to understand what your risk profile is, what your appetite for risk is, what your composure is for when the markets are up or the markets are down, are you in for the long haul, so that we can actually give you the right advice in terms of the types of products and investment vehicles you should be in, or investing through."

UNDERSTANDING YOUR CLIENT

The Absa Wealth team uses a proprietary tool, the Financial Personality Assessment (FPA) tool, to assess each client that places them in a far stronger position to advise their clients. "That is what I speak about when I talk about really understanding the client, understanding what outcomes they require, and what risks they are prepared to take to achieve those outcomes. There are different buckets within that too, things like, what appetite they have for risk, how averse they are to risk, their composure, and so on," says Monale.

For clients like these who might have a high appetite for risk and a high composure for risk, Absa Wealth might suggest higher return type products that do have a higher risk, because they know this type of client is going to see it through for the long haul. Equities, for example, as a class are by some models the best performing asset class over a long term cycle. For a client who is only interested in a five-year cycle however, this may not always be the best option. "If our view is that the market is going to be quite volatile over that period, it may well be that we shouldn't put him into a high equities basket. Maybe you want to have an element of equities because you do want above average returns, but you then may want to reduce the risk by investing in more money market type instruments or bond type instruments. You may think of property as an asset class. You may also - depending again on whether they have the appetite for it - think of hedge funds as a type of instrument, and you might think of private equity, so there are a whole range of instruments," says Monale. If the results of the FPA reveal the client has a high appetite for risk, but a low composure for it, and the market projection is volatile, Monale says that it might be more appropriate to advise a value basket, or a momentum basket rather than a high equities or growth basket for a period, till the market projections improve and stabilise to a greater degree.

While their strategic planning for their clients is typically long-term focused, it doesn't mean they don't also take a shorter view. Monale gives an example of a client who is worth R100 million, "It may well be that the client's asset portfolio is so well-diversified already into property, into liquid assets into offshore, into geographic diversification, etc., and perhaps he has an appetite for something slightly higher risk. In that case you might say to him, "well then, why don't you take five or ten percent of your assets and allocate that towards a market direct investment, through stockbroking or equities, or whatever it might be, perhaps riskier assets, hedge fund type instruments and so on. So we might well give that advice depending on what's appropriate for the client and I think that's why we spend a lot of time understanding the client's needs. It is about tailoring the advice and the products to his specific needs, and so while you might have two clients with the same amount of wealth, they will have different requirements in terms of a risk outcomes perspective. Therefore the advice you give to customer A is going to be very different to what you advise customer B."

IT'S A MATTER OF TRUST

Monale explains that wealth management is different from the professional investment space where he worked previously. There is obviously the implicit fiduciary duty of care in both, but in his experience, you are asked much tougher questions when you are talking to your clients about managing their overall personal wealth. "We advise on the higher spectrum and are often asked, "What are you investing it in? What are the risks associated with the investment? What sort of returns can I expect? What is the duration of the investment? When am I going to get my money back? What is your track record in investing?' You face advice risk, and you face investment risk, so the duty of care is actually a lot higher," he says.

"We have some clients that we are still building a relationship with that will say, 'I like you guys, I like the story you're telling, I like the products, the global reach you give me and so forth, however I don't have that type of relationship with you yet. I might have it on the banking side, but I don't have it on the advisory side and on the asset side, but I'm going to give you a chance. I'm going to give you a slug, a segment of my wealth. I'll give you five percent of my wealth, and let's see how that goes.' We can do that. Obviously we appreciate the opportunity, and we'll take it and hope over time to build a stronger relationship, but our real skill and ability to add value to the client is so much enhanced when we actually see the full picture. In order for a client to really open up, and talk about his affairs, he has to trust you."

Being able to understand the bigger picture allows Monale and his team to see all the angles, and to make more astute investment recommendations from an educated position, taking factors that could have an influence on those recommendations, into account.

"You've got to be able to know, if a client comes to you and he has X and he wants to put 90 percent of X into a specific high-risk investment, you have to be able to stand your ground. As an advisor, you could do the transaction, charge your fee and off you go, but then you haven't actually given your client advice. There is reputational risk for you and the organisation, but there is also a regulatory risk to the FSB, who will ask if you gave the right advice? You have to document all the steps, ensure that you checked up on each thing, and that it was 100 percent. We have

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our own internal processes that also check up that everything was 100 percent, so you do have to be able to say to the client "To take your money offshore right now isn't the right thing to do, I know you're worried about the politics, I know you're worried about the economy, I know that you're worried that the Rand is going to depreciate, but this is not the right investment for you."

IT'S ABOUT INTEGRITY

"So fundamentally it's about integrity, being willing to walk away from a sale, because you don't think it's the best move for the client," I muse.

Monale agrees. "Banks enable a modern economy to function, and there are a whole range of products and services, savings accounts, cheque accounts, etc., but over and above that there are also investment products that we manufacture, and so the temptation, if you are a producer of anything, is to sell. That's where our model is a little bit interesting. We decided when Absa Wealth was established back in 2008, that the thing that we're going to focus on is advice. We talk about an advice-led wealth management business that is investment-led. We focus on investment yes, but it is advice-based. So we invest a lot in our people we have to hire right. We have to get the right talent and have the right conversations with the client so that they trust us. Then they open up, show us everything, and then we can provide them - on a holistic end-to-end basis – a long-term plan, where we protect the clients assets, grow them, make sure the clients affairs are in order, such as succession planning, estate planning and all of these things."

Monale says that by only focusing on your own internal products you risk miss-selling. He says it might be appropriate at the lower end of the customer market, to keep all products in-house, because at that level, the instruments are all pretty much the same. However, the more complexity there is, the greater the possibility becomes that they might not have a particular product set for the client, "We know what it is, we know where to source it for you, and we are a one-stop-shop, so we'll pull it in because we have provider arrangements in place, but we will absolutely focus on giving the right advice."

The signifier behind Absa Wealth's approach is that they do their homework, they are not just inward focused, they're externally focused too, and that's what gives them their edge. It's a holistic approach that keeps the best interest of their clients, at the forefront of every recommendation they make.

THE FUTURE OF WEALTH MANAGEMENT

"Wealth as an industry is still relatively new in South Africa. Some of the established boutique investment firms have only been going for 20 years. In terms of the banks, we were first to market, we started our business in 2008, and in short order the others followed. I think the industry is maturing, it's extremely competitive, and so we all have to be thinking a lot sharper about what's our differentiator. So initially I think you can differentiate yourself on service levels, because on the banking side that is commoditised and you can continue to innovate around service, giving clients 24/7 access, but I think there's only so much more you can do there. We have to all be innovating around product set, innovating around investment vehicles, investment opportunities, platforming with bringing on external partners," says Monale.

"We have to be very cognisant of the market, we have to be cognisant of the economy, so our specialist teams do a lot of research into what the current investment climate is. We are currently in a low growth environment, and we will likely continue to be in a low growth environment for the next two to five years. This means your investment return profile over that medium-term horizon is quite subdued and so how do you take that and apply it to your high net worth clients? Wealthy people are very interested in creating more wealth, and so they aren't going to be happy with a five percent return. They have become wealthy by seeing opportunity where other people haven't, and so they place the same expectations on us. We have to think outside of the box in terms of creating that wealth for our clients," he says.

"So you start looking at guaranteed, structured type of products where the client might have limited downside risk, but may participate in upside. Maybe you can put them in some funky, exotic type of instrument. So how do you get exposure to asset classes that your client might not ordinarily do, whether it might be an African Infrastructure Fund, or an Energy Fund, where you could get Dollar returns that behave like an equity assets but because there is perhaps, a government guarantee, it actually does provide you with downside protection?" he asks. "These are typically large capital type investments so even if a client is worth R1 billion, he's not going to give you R100 million to invest in it, but maybe you then pool clients together and ask for slugs of the R100 million that might be required. So that's the type of thing that we do think about, that I think, over the next few years, we are going to have to think about even more."

I've learned a lot from Monale. I think about wealth clients, who have worked hard, and fought hard to achieve the great successes that they have, and how important it is for them to have someone strong enough to guide them correctly, who won't just be a "yes man" or a product pusher, but will advise them on the best possible strategy for their individual needs. My thoughts are that however the face of wealth management evolves in the future, clients in this space will be won or lost over those integral old-fashioned values of trust and integrity. ■ Lindsay Grubb