



The Wealth Management Report

Meeting the expectations of UK high net worth clients

Better insight + Better process = Better results

J.P.Morgan
Asset Management

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Foreword

After a decade of steady growth in the UK high net worth population, the wealth management market is facing an unprecedented combination of challenges.

Finance and banking – the single biggest source of high net worth employment – is undergoing severe contraction with an estimated 62,000 jobs expected to go from the City of London over 2008-2009¹. UK residential property fell by 16% on average during 2008², while FTSE 100 shares saw their collective value fall by £470 billion over the same period³.

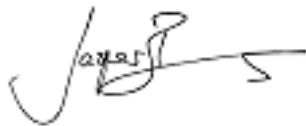
In this grim environment, the wealth management community is likely to polarise. Some will focus on defensive action, cost-cutting and downsizing. All will be considering what they need to do next to enhance their proposition to a potential client base that – at least in the medium term – may be narrower, more risk-averse and possibly less willing to part with its capital.

In this report we look at what services clients have told us they want from a wealth management company in these credit crunch times.

Uniquely, we have canvassed and compared the opinions of wealthy individuals in two quite different age groups: high earners under 35 and asset-rich individuals over 55. In this way, we hope to build an accurate picture of how current and future high net worth clients want their assets to be serviced.

To give this report further depth, we have asked four leading wealth management firms to give their views on where the industry's best prospects for survival lie and how they are looking to service their clients for the duration of this difficult market. Viewpoints have been kept anonymous to enable firms to be as candid as possible.

In the current climate, it is more important than ever to know – not guess at – what your current and prospective clients really want. Our research shows, for example, a preference for simple, transparent products, performance based fees and a clear focus on absolute not relative returns. We hope this report offers a sense of opportunity and provides insight into not only how the economic crisis has effected the immediate outlook, but also offers some idea of how wealth managers need to position their business for future success.



Jasper Berens
Head of UK Retail
J.P. Morgan Asset Management

¹Source: Centre for Economic and Research

²Source: Halifax

³Source: Bloomberg

Part one – Assessing the impact of the crunch

Until 2007, levels of personal wealth were rising to record levels globally, providing the wealth management industry with a rapidly-growing potential client base.

But this steady rise in personal wealth now faces massive challenges as the effects of the global credit crunch, which began to emerge in late 2007, continue to be felt. We believe the impact on the wealthiest segments of the population will be severe in relative terms for the following reasons:

- 1. Equities:** Of the whole population, high net worth individuals have the highest percentage exposure to the stock market.
- 2. Property:** In contrast to previous stock market crashes, the property market is now also in sharp decline.
- 3. Occupational risk:** The wealthier individuals are, the more likely they will work in banking or real estate – two sectors that are being severely hit by the credit crisis.

We expect the numbers of individuals in the UK who can be defined as high net worth (i.e. assets of US\$1 million or more) to dip significantly in the short to medium term (i.e. up to the end of 2010). There will also be a severe impact on the flow of young up-and-coming clients due to the impact of the credit crunch on employment and remuneration levels in key sectors such as banking.

This contraction in wealth has serious implications for the wealth management industry. However, there are also reasons for optimism – for example:

- Only a small proportion of global personal wealth is under advice
- Wealth managers with proven expertise will be well positioned to capture clients from less-skilled intermediaries, and many individuals will be less confident in their own investment decision-making
- Marginal players in wealth management are likely to exit the market.

Part two – Servicing the wealthy

Given the challenges cited above, it is more important than ever that wealth managers understand their target client market. Our research among two sample groups ‘Young High Earners’ aged 35 and under and ‘Asset Rich Elders’ aged 55-plus aimed to determine what current and future high net worth clients need and expect from a wealth manager.

Investment priorities and concerns

- The main focus of wealth management among both age groups is to maximise capital growth; both show a high interest in income generation too.
- Tax and stock market downturns are considered the biggest threats to wealth among older investors; the young view redundancy as their biggest wealth threat.
- Simple tax-saving strategies – such as pensions and ISAs – are preferred.

Wealth management services used

- Independent financial advisers are more widely used than firms that position themselves as wealth managers.
- Younger potential clients are keen to use a wealth management service as a one-stop shop.
- Poor service and poor communication are the key reasons for dissatisfaction with a wealth manager.

Selecting a wealth manager

- Personal or professional referral is the most important factor for both age groups when shortlisting a potential wealth manager.
- Prestige, brand and international presence also scored highly among under-35s.
- When making the final selection, quality of assigned advisers, performance track record and experience with similar clients were the most important factors.

Investment preferences

- Potential clients in both age groups favour an advisory portfolio management approach where every investment transaction is first approved by the client.
- Clients also favour bespoke portfolio management over model portfolios.
- Overall, clients in both age groups want to focus on core asset classes such as equities and bonds, with less interest in non-core instruments. Younger clients show marginally more interest in specialist areas such as emerging markets.

Communication and client service

- Email is by far the preferred form of communication for clients in both age groups, followed by face-to-face contact.
- Younger clients are willing/ expect to be contacted on a more frequent basis than their older counterparts - with almost 40% wanting to be emailed every week.
- Clients of all ages - but especially younger ones - expect a high level of online functionality and access to their investment portfolio.
- Younger individuals are interested in ancillary services such as networking and business introduction and guidance on property investment - but not to the same extent as online servicing.

Remuneration

Performance-based fees are by far the most preferred method of paying for wealth management among both age groups, with commission deducted from product charges coming a distant second.

Part three - Positioning for the future

Given the contraction in global wealth and the changing expectations of the next generation of clients, we believe there are certain attributes that wealth management firms must possess to ensure future client growth, profitability and revenue stability:

These include:

- **Strong technology focus:** both to ensure back office efficiency and provide clients with the high level of communication, information and online functionality that they now expect.
- **Transparency and simplicity:** particularly in terms of investment products used and in showing investment results achieved for clients.
- **Empathetic client segmentation:** clients need to be assessed and managed not simply by level of assets but by similarity of background, investment objective and even values and social interests as younger clients seek out firms that offer a high level of personal identification.
- **Diversification by type of client and remuneration:** as wealth contracts and markets remain volatile, firms need to assess carefully both the sources of their clients' wealth and the basis of their own remuneration (time-based? AUM-based? etc) to ensure stability of their own revenue.
- **Client-led not sales-led proposition:** wealth managers need to show how they differ from other intermediaries. Primarily we believe this requires a business structure that enables the firm to focus on quality of client advice, not volume of product sales.

Part one - Assessing the impact of the crunch

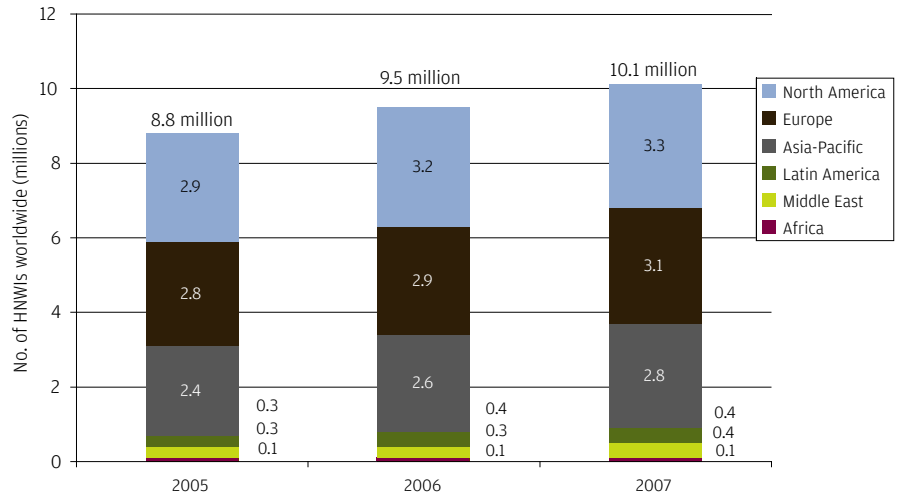
In this section, we assess the likely impact of the recent credit crisis on the wealth management industry's client base, and consider how the current climate may present opportunities for some industry participants.

1.1 Putting the brakes on record high net worth growth

Until recently personal wealth was growing to record levels globally, providing wealth management firms with a large and growing client base. In 2007, average global high net worth wealth surpassed US\$4 million for the first time according to the World Wealth Report 2008 from Merrill Lynch and Cap Gemini.

By the end of 2007, just over 10 million individuals worldwide held at least US\$1 million in financial assets¹ - see Diagram 1 below - a large and lucrative market for the wealth management industry.

Diagram 1: Dollar millionaires exceed 10 million globally



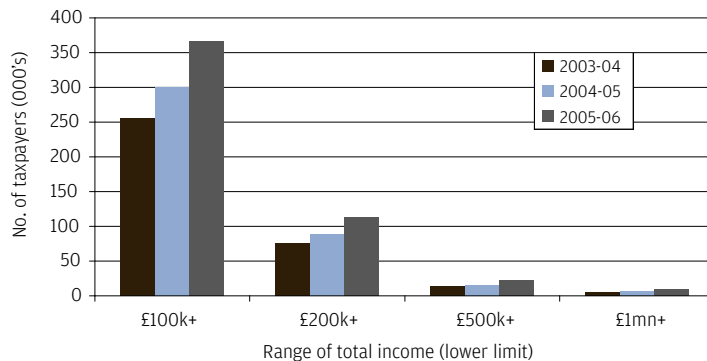
Source: Cap Gemini/ Merrill Lynch - World Wealth Report 2008

The UK wealth picture up to 2006

These global trends were reflected in the UK. By April 2006 (the latest figures available), there were more than 31,000 individuals with a taxed annual income of more than £500,000 (i.e. a reasonable proxy for dollar millionaire status - clearly, this figure increases if other assets are taken into account as well as income).

There was also strong growth lower down the affluence scale, with the number of individuals earning £100,000-£200,000 leaping 46% in just three tax years - see Diagram 2 below.

Diagram 2: Growth in UK high income earners 2003-2006



Source: HM Revenue & Customs, Survey of Personal Incomes. Please also note that this data will not capture wealthy individuals in the UK who don't pay tax in this country. As it only assesses taxed income, it will not take full account of capital assets.

¹The World Wealth Report uses the following wealth definitions:

High Net Worth Individuals (HNWI) - hold at least US\$1 million in financial assets

Ultra-High Net Worth Individuals (Ultra-HNWIs) hold at least US\$30 million in financial assets.

These definitions exclude collectibles, consumables, consumer durables and primary residences

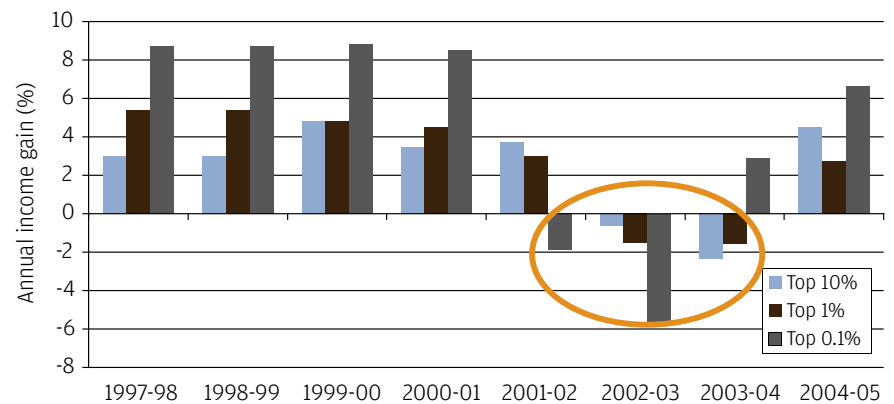
In other words, personal wealth - in real, post-inflation terms - has been on a steady upward trajectory both globally and in the UK. So how are recent economic and market events likely to have affected the size of this potential wealth management market?

1.2 Learning from the dot.com crash

Income data tends to span tax years, so it is not yet possible to assess the impact of the events of 2008 on high net worth income in the UK.

However, we can draw some conclusions if we look at how the UK's wealthy were affected by the last major market event - the dot.com crash of 2000-2002. According to analysis by the Institute of Fiscal Studies, the top 10% of UK taxpayers saw their annual income fall during 2002-03². Moreover, the wealthier an individual was, the steeper the decline in income. After four years of consecutive income gains of 8% or more, the top 0.1% of taxpayers saw their income drop by 6% in 2002-03. Indeed, this segment saw their income start to drop earlier than anyone else, with a decline of almost 2% in 2001-02 as well.

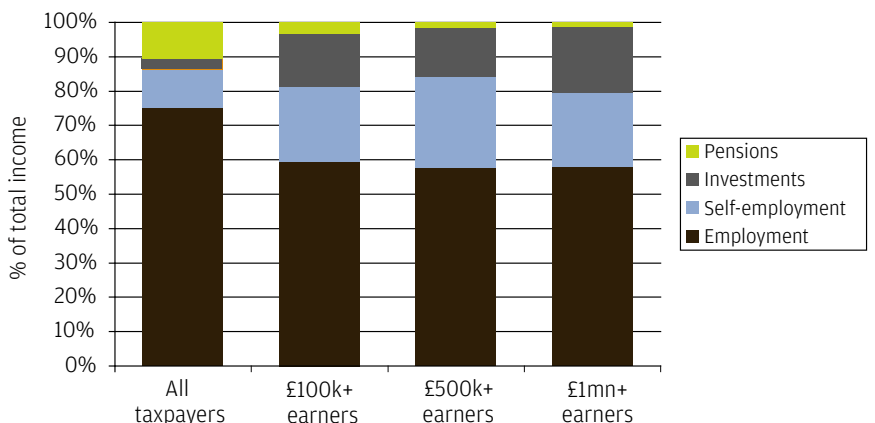
Diagram 3: Annual income gains for top 10% of UK taxpayers 1996-2005



Source: Institute for Fiscal Studies - Briefing Note 76

This suggests that the wealthier individuals are, the more exposed they are likely to be to stock market declines. This is borne out by data from HM Revenue & Customs, shown in Diagram 4 below. From this we see that investments account for a significantly higher proportion of income among high earners than among the population as a whole. Among £1 million+ earners, pensions and investments account for 20% of income compared to just over 10% for the population as a whole. (Diagram 4 also shows the wealthy are also more likely to draw income from self-employment and entrepreneurship, which were also affected during the 2000-02 crash.)

Diagram 4: Sources of income for higher earners



Source: HM Revenue & Customs, Survey of Personal Incomes 2005-06

²See Appendix for profile of top 10%/1%/0.1% of population as calculated by Institute of Fiscal Studies

1.3 The high net worth triple-whammy

It is highly likely that the wealth-related income declines seen in 2002-2003 will be repeated in the wake of the current crisis. However, we believe the wealthy will see income levels far more severely hit than during 2002-03 for the following three reasons:

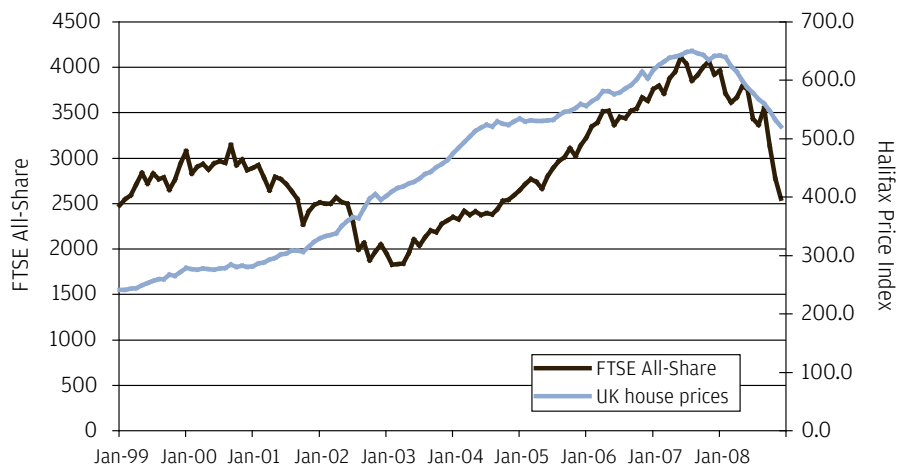
1. Stock market declines are steeper and faster

Recent stock market declines have been sharper than those following the dot.com crash and have affected a far wider range of sectors. At the time of writing in early January 2009, we have seen the UK FTSE 100 fall around 2,500 points in 15 months from its 6,700 level in October 2007. The FTSE 100 was at almost exactly this level in August 2000 but took considerably longer – around two years – to record the same depth of decline.

2. Property isn't providing insulation this time around

It is not just stock markets that are in decline. The nature of the credit crunch means that property – often relied upon to have a low correlation to stock markets – is also in sharp freefall. So whereas UK house prices actually appeared to accelerate during the dot.com crash – thus insulating personal wealth from the impact of falling share prices this time around property prices have fallen by around 20% from their August 2007 high – as Diagram 5 shows.

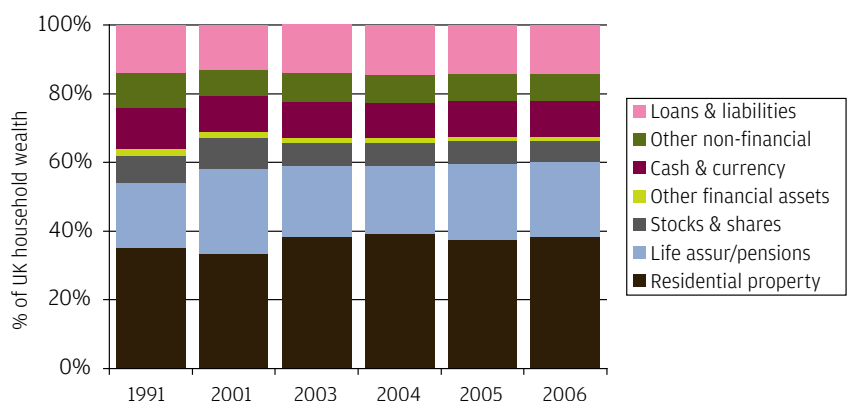
Diagram 5: UK property and share prices



Source: Datastream/Halifax

This is particularly serious as residential property together with pensions, life assurance and stock market investments accounts for close to 70% of household wealth – see Diagram 6. A combined property and stock market crash therefore has massive implications for overall individual asset worth in the UK – at all levels of wealth.

Diagram 6: Composition of UK household wealth

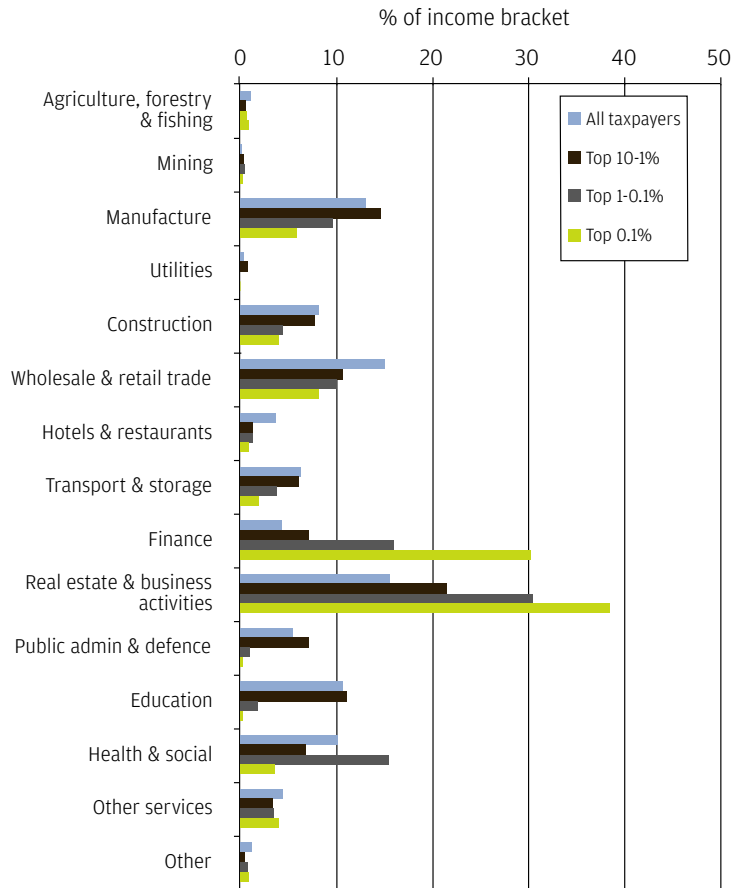


Source: Office for National Statistics, Social Trends 38: 2008 edition

3. Wealthy highly likely to be employed in banking or real estate

Finally, the wealthier an individual is, the more likely they are to work in property and banking – two of the sectors that have been hit earliest and hardest by the credit crisis. As Diagram 7 shows below, close to 70% of the top 0.1% of income earners in the UK work either in real estate and business activities (i.e. law) or finance sectors. It is especially notable that 30% of the top 0.1% work in finance compared to less than 5% of the tax-paying population as a whole.

Diagram 7: Where the wealthy work



Source: Institute for Fiscal Studies – Briefing Note 76; based on Survey of Personal Incomes 2004-05

1.4 Projecting the impact

The points above clearly illustrate how the wealthiest segments of the population are uniquely vulnerable to the triple whammy of a property, stock market and banking crash.

At the time of writing in mid-January 2009, there is still little visibility over the likely extent or severity of the global recession, which makes any projection difficult.

- Nonetheless, for all the reasons cited, we can reasonably assume that the decline in income for the top 0.1% of the UK population in the wake of recent events will be well above the 6% seen in the last bear market of 2000-02 and could well rise to double figures.
- Moreover, it is not just income that will be impacted: underlying asset levels have also shrunk and could continue to do so for many months if the current downward momentum in share and property prices is maintained.

- We would expect the numbers of individuals in the UK who can be defined as high net worth (i.e. assets of US\$1 million or more) to dip significantly in the short to medium term (i.e. up to the end of 2010). At a conservative estimate, we would anticipate that income among the top 0.1% of the working population may shrink by 10% or more. Value of assets may fall far further - with falls of 20-30% in equities and property already recorded.
- Declines in the job market and the financial sector in particular have strong implications for the wealth management industry's up and coming generation of high net worth clients, who depend on salary and other remuneration for 80% of wealth (see Diagram 8: Sources of Wealth on page 14). Redundancy and a restriction on remuneration in the banking sector could have a major impact on new client flow among younger age groups over the next two to five years.

Addressing a poorer and more cynical client pool

There are clear signs, then, that wealth in the UK will contract over the next couple of years, and - as we have explained - strong reasons to believe that the high net worth population may be hit hard in relative terms.

Of course, many of these individuals remain very wealthy in absolute terms. Given the strong growth in wealth experienced over the previous three to five years, the declines to date in markets and property may simply have taken many wealthy individuals back to the level of wealth they were at in 2003-04. But the psychological impact of being besieged on so many fronts - equity losses, property decline and job loss/insecurity will inevitably make the wealth manager's potential client base more wary and more cynical about enlisting a third party to manage their capital.

This mind-set will be further hardened by individual events such as the Madoff hedge fund scandal which came to light in December 2008 and is estimated to have resulted in total losses of US\$50 billion for wealthy clients. The continued lack of credit and leveraging opportunities will also make clients more reluctant to invest what liquidity they have left.

1.5 Reasons for optimism

Nonetheless, we believe there are many positives for wealth managers to focus on:

The wealth market is still underadvised - Only a fraction of high net worth assets are believed to be under advice. In 2007, the Scorpio Partnership, a wealth management consultancy, suggested the world's top 10 wealth managers and private banks manage less than 20% of the estimated universe of high net worth assets.

While the number of high net worth individuals will fall from its 2006 high, it should be remembered that the number of global and UK wealthy has grown steadily over the last decade. Even if wealth does contract by 10% or more, the market to be captured by the wealth management industry therefore still remains at historically high levels.

In a recovery, the very wealthy are the first to rebound - As Diagram 3 on page 8 shows, the wealthiest 0.1% of the population was the first to see income growth turn negative during the dot.com crash; but it was also the first segment to see income growth turn positive in 2003-04 and continued to see the strongest income growth thereafter. This may partly be because many of these clients will have remained invested throughout the downturn - a point that should be made to existing and potential clients who are looking to stay out of the market.

Different occupations will be less affected than others - As we have seen, the working wealthy are heavily concentrated in two occupational sectors - real estate and finance.

However the slightly less wealthy - those in the top 1%-0.1% of income earners - are more diversified, with a strong presence in manufacturing, wholesale/retail trade and the health sector. We would expect the highest earners in this last sector in particular to be reasonably well insulated from the current downturn, at least in terms of job security.

Client dissatisfaction and lack of confidence will benefit talented wealth managers – As we will see in the following sections of this report, some wealth managers are reporting strong business from new clients who are disillusioned with sales-driven wealth services, or who have become less confident in their own decision-making. Indeed, some wealth managers are reporting strong outsourcing demand from some intermediaries who are less confident in their own investment capabilities in the wake of recent events. For wealth management firms with genuine investment expertise, these may prove important sources of new business.

Number of wealth managers will contract – The wealth management market has seen many new entrants as more and more firms look to capture the growing high-net worth segment. Many commentators believe this trend will reverse and later entrants will return to core activity. This contraction should provide opportunities for firms who are focused on wealth management as their core proposition.

Knowing what the wealthy want

There are reasons for optimism among wealth managers in the current economic climate. However, retaining and expanding a client base in these circumstances requires exceptional understanding of what individuals want from their wealth manager.

In the next section of this report, we look at the needs and expectations of current and potential high net worth individuals in the UK.

PROFILE: The global private bank

“Over the last decade we have seen a significant rise in global wealth creation which has led to many new firms entering the wealth management market. The result is a rise in overall capacity. I would expect that, given market volatility, recent entrants, for whom wealth management is a marginal activity, will revert to their core activities. The firms that will win in this market are those who always had wealth management at the core of their business.

Currently, our clients tend to be segmented by their level of assets. We envisage further sub-segmentation by type of client - for example, entrepreneurs and financial professionals. Prospecting activity and product solutions will be much more geared toward those segments.

I would agree that performance is likely to increase in prominence as a criterion of good wealth management.

What we see is that private clients generally tend to be focused on absolute return. They are more interested in preserving wealth and managing risk than evaluating their relative performance against a benchmark.

Remuneration is based on level of assets or product sales. Performance fees would be difficult to determine and could encourage wealth managers to take excessive risks in order to increase revenue. You want your managers to be compensated for both wealth preservation and growth - and it's hard to see how performance fees could achieve that as a blunt instrument.

Over the last few years, wealth managers have enjoyed a fairly benign environment in which it has been relatively easy to acquire assets. Going forward, firms will need to focus heavily on assessing the strength of their offering against that of their competitors.

This will be difficult for many firms. It's not like the institutional space where you are solely being assessed in terms of performance. With wealth management, the factors being measured are far more intangible - it's about personal relationships, how happy clients are and quality of service.

The client experience is a big concern of ours: we use a range of annual measures to ensure clients are happy, not just satisfied. It is the client experience that drives client retention and client referral.

Losing clients when employees move on has not been an issue for us. There are situations where a talented relationship manager may leave and clients may follow him or her but these are rare in our experience. We are a well-known global firm, with a strong wealth management franchise and typically a client will choose us because of the overall value we represent and offer.

The potential contraction of the market will offer opportunities for firms like us - particularly in attracting talented people. Wealth management is a relatively immature business and the kind of high-quality graduate we would want to recruit has tended to focus on investment banking and may not automatically consider wealth management as a career.

Given events in investment banking, the talent pool for wealth management is likely to deepen.”

Part two - Servicing the UK wealthy

In this section, we present exclusive research conducted for J.P. Morgan Asset Management among affluent individuals in the UK to see what wealth managers need to do to attract and retain clients now and in the future.

Who we surveyed

We surveyed 200 high-earning/high net worth individuals to discover how they would like to have their wealth managed, what their key investment concerns are and the services, features and strengths they would look for in their ideal wealth manager.

As well as looking for general preferences, we wanted to discover if there are any marked differences in how older and younger high net worth individuals wish to be serviced. In this way, we hoped to see if there are any ways in which wealth managers need to be positioning their offering to attract the high net worth clients of the future.

Our research therefore focused on two different age groups:

Asset-Rich Elders - representing the 'current' high net worth client base, these are 100 individuals aged 55 or over. Each has investable assets (i.e. excluding pensions and property) of £250,000 or more.

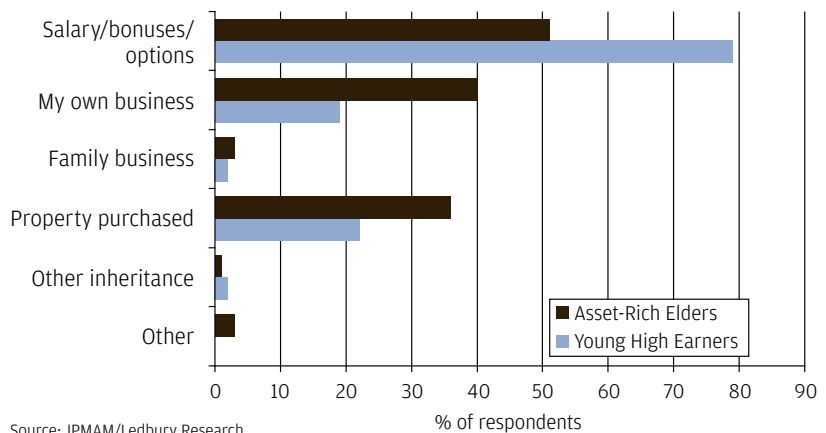
Young High Earners - representing the high net worth client base of the future, these are 100 individuals aged 35 or under. Each has gross personal income/earnings of at least £100,000 a year.

Both groups were surveyed online in autumn 2008. One-to-one interviews were also conducted with a small selection of respondents and some of their comments are included throughout this section.

Sources of wealth

The vast majority of our survey group are self-made: salary, their own business or property they have purchased are the main sources of wealth. Very few have inherited wealth or cashed in on a family business or property. There are twice as many entrepreneurs (i.e. owning their own business) in the older age group as in the younger age group.

Diagram 8: Source of wealth among our respondents



2.1 Investment priorities and concerns

We first asked respondents about their investment priorities and concerns. In both age groups, the chief investment priority is to maximise capital growth. This was the prime consideration for 55% of our Young High Earners and 43% of our Asset-Rich Elders.

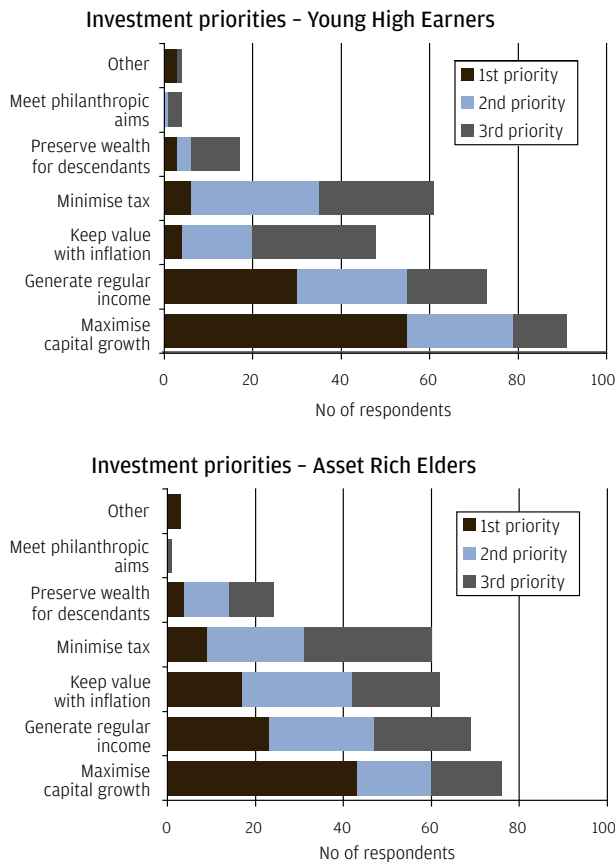
Both age groups also want to generate regular income. Surprisingly, a higher number of Young High Earners than Asset-Rich Elders put regular income as their first priority.

Keeping pace with inflation was more important to Asset-Rich Elders, who also rank this as a higher priority than reducing tax. It is noticeable that reducing tax is a top priority among very few Young High Earners (although it makes its way into the top three priorities for 60% of this group), who clearly prioritise investment return before tax efficiency.

Older investors were more interested in preserving wealth for future generations. The younger wealthy, on the other hand, appear marginally more interested than their older counterparts in managing wealth for philanthropic purposes. Although no respondent cited this as their first priority, there is an indication that a small proportion of Young High Earners would like to explore investing for good causes once their own requirements for investment growth or income have been met.

Diagram 9: Investment priorities

It is surprising that so many Young Higher Earners place ‘a regular income’ as a key investment priority. This could suggest that many in this group do not understand the difference between investment yield and growth (underlining the need for good investment guidance). But it may also indicate the growing value placed on dividends and other income streams as part of total investment return, especially during the current difficult investment climate when capital appreciation may be less available.



Source: JPMAM/Ledbury Research

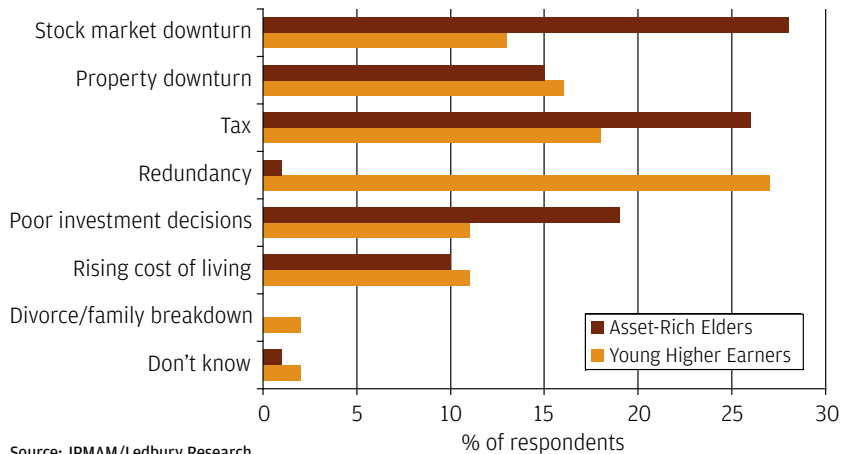
The three biggest wealth risks cited by Asset-Rich Elders (tax, market declines, and poor investment decisions) are all prime areas where a wealth manager can take action and add value. Conversely, redundancy - the biggest wealth concern among our younger wealthy - is not an area where a wealth manager can directly reduce risk. However, they can mitigate the potential impact - for example, by setting up an investment strategy to augment income.

Threats to wealth

In terms of the biggest threats to wealth, older respondents were most concerned about a stock market downturn and tax. Young Higher Earners ranked redundancy as the biggest threat to their wealth. Tax also ranked as their second-greatest concern (which is interesting, given the lower importance placed on tax efficiency among their investment priorities). Young High Earners ranked a property downturn as a slightly greater threat to their wealth than a stock market decline.

Perhaps because of their greater stock market exposure, older investors also saw poor investment decision-making as greater concern than young high earners.

Diagram 10: Biggest threats to wealth



Source: JPMAM/Ledbury Research

Strategies to manage tax

Helping high net worth clients to manage their tax burden is a key proposition among many wealth managers. So which tax reduction measures are of most interest to our two generations of wealthy individuals?

Affluent investors of both age groups are most interested in managing tax using mainstream tax-efficient investment wrappers such as pensions, individual savings accounts (ISAs) and insurance bonds - as Diagram 11 shows.

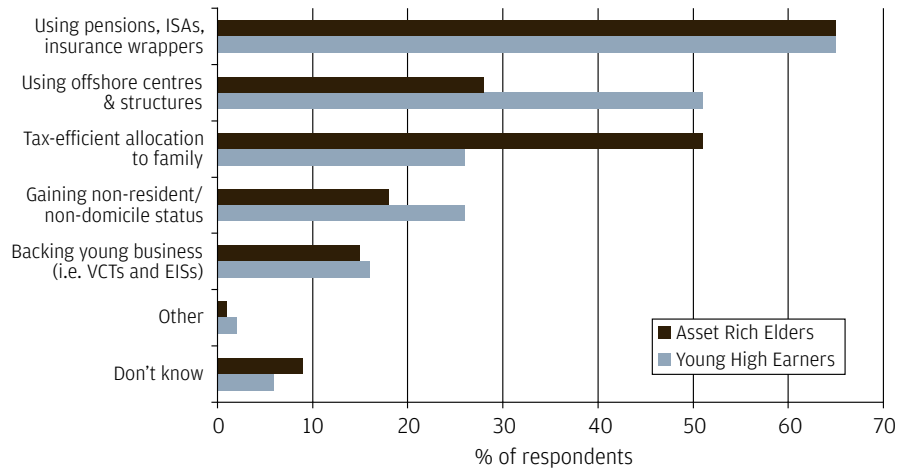
Far fewer claim to be interested in enterprise-focused vehicles such as venture capital trusts or enterprise investment schemes - perhaps deeming these more risky - although there was slightly more interest among the younger wealthy.

Young High Earners also show a markedly greater interest than older investors in using offshore centres and products, while a quarter of Young Higher Earners would also like to explore the possibility of becoming non-resident or non-domiciled in the UK to reduce their tax bill.

More than half of Asset-Rich Elders are interested in tax-efficient allocation of assets to family members - twice as many as younger investors. This is understandable, given that many of our younger respondents don't yet have any children. Also older investors will be particularly interested in gifting assets as a means to reduce potential inheritance tax liabilities.

It is worth noting that around one in 10 Asset-Rich Elders and one in 12 Young High Earners say they don't know which tax reduction methods are of most interest to them - indicating a sizeable market across both age groups who would welcome guidance in this area.

Diagram 11: Preferred tax reduction methods



Source: JPMAM/Ledbury Research

PROFILE: The private client investment manager

“We are seeing that the integration of financial services with discretionary management is very appealing to clients. It gives them a one-stop shop where they can get advice on the structure of their planning - pensions, tax, wills - sorted out in the knowledge that the actual asset management comes second.

We still segment by level of assets but we have noticed that the source of wealth is changing, with more owner-business assets rather than inherited wealth. Entrepreneurial clients tend to be more hands on and want to know what's happening in their portfolio and why. Inherited wealth clients are interested in the income and view their portfolio more as an annuity.

New enquiries have stepped up a gear since the credit crunch. One source is intermediaries who feel their own investment expertise isn't sufficient right now. They want a specialist discretionary portfolio manager to carry their clients through this difficult period.

There are also clients who have tried to manage their portfolio on their own and now realise they need professional expertise because things have gone wrong. In addition, low interest rates always prompt an increase in enquiries. We have people coming to us saying “Interest rates are 2% - I can't live on that - please help.”

The premier league private banks have dropped the ball. Not being a bank has never been so attractive.

We are able to use instruments that many financial advisers aren't authorised to use. Yes, we use collectives but we will often ask a prospective client: ‘Why hasn't your adviser invested in Berkshire Hathaway shares for you? Is it because he doesn't rate Warren Buffet or is it because he can't sell them to you? In which case, is your wealth really getting the best possible management?’

Performance is difficult to show. We run bespoke portfolios so we get bespoke results. But we try to educate clients to take what they need from the market rather than focus on trying to outperform it. If you need 7.5% a year, then fine - invest in a corporate bond. Don't take market risk just for the sake of it.

Falling asset prices mean that things are getting simpler. You don't have to work that hard to get a good return in this market over the longer term - why opt for a complex hedge fund with multiple moving parts to achieve 8% yield when you achieve that yield on a high-quality preference share such as HSBC or an equivalent bond fund?

With us, clients get to talk to the same people, we recognise their voice when they call - all of that has got lost in the fight for scale among the larger wealth managers. It's helpful when the same team that took them through 2000-2003 is advising them through this downturn.

You need to make a client feel that they are the only person whose money you manage. Every time we speak to a client we record it on the system - so we know what their dog's called, what their children's names are, where they went on holiday. It's this level of knowledge that keeps a client with you as well as good investment skills.

Looking ahead, I think the wealth management industry has to stop trying to milk everything it can out of fees. Also, we all need to stop pretending that equities don't involve risk. Admit that they do and then ensure exposure is appropriate. Wealth managers need to be more inventive in how they look at the market and take from it what the client actually needs at any given point in time.

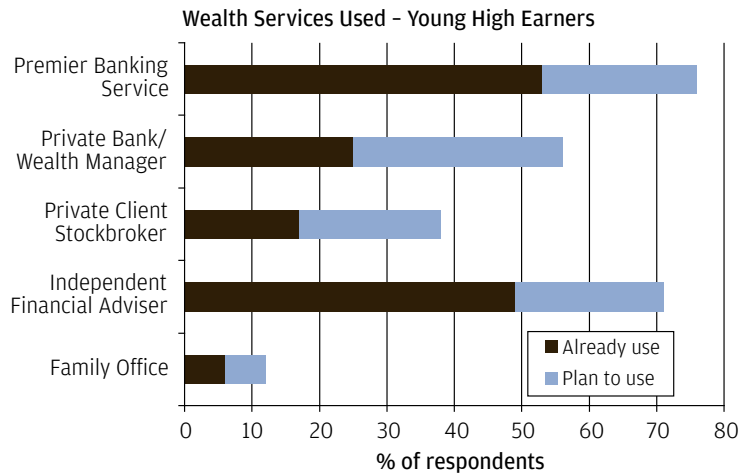
For example, one idea we discuss with clients is that they retain their own personal special opportunities fund - liquid cash that they can put to work at times like these. After all, why do the rich get rich? It's because they have money to invest when no-one else does. Advice like this is the difference between genuinely managing client wealth and simply asset gathering.”

2.2 Wealth management services used

There are many firms and banking entities vying for the business of high net worth individuals. We wanted to see which of these services our survey group is already using.

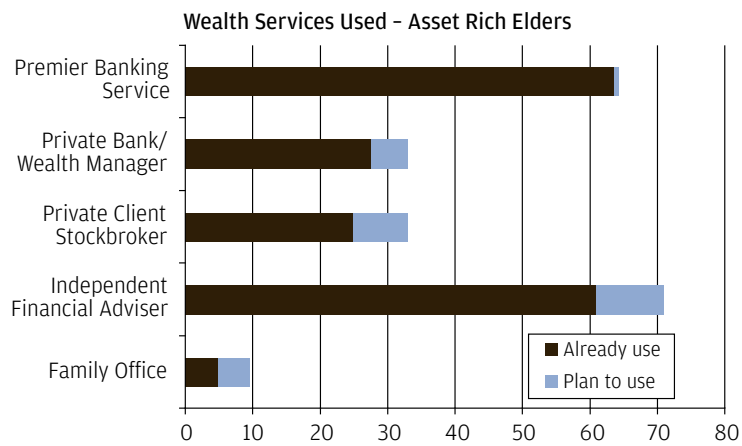
When it comes to day-to-day banking, both age groups like the services offered by premier banking – over three-quarters of Young High Earners either use or plan to use a premier banking service. This reflects how effective high-street banks have been in migrating individuals into premium services once their income or balances reach entry level.

Diagram 12: Wealth Management Services used*



Even among wealthy, astute consumers, the ability to distinguish between different types of financial intermediary is low. Wealth managers and private banks need to do far more to demonstrate what they can offer that a high-street IFA cannot.

It is also clear that many individuals do not feel their income or assets are at a sufficient level to qualify for wealth management services – even when they are well above the threshold stipulated by most firms. Are some firms missing out on a valuable tier of business by marketing themselves as too exclusive?



Source: JPMAM/Ledbury Research *Excluding specific tax advisory services e.g. accountants and estate planners

But as to investment management, it appears that services aimed exclusively at the wealthy have had less impact.

Both age groups are more likely to use an independent financial adviser (IFA) than a specific wealth management service or private bank. Around 70% of both Young High Earners and Asset-Rich Elders use or plan to use an IFA. Only 34% of Asset-Rich Elders use or plan to use a private bank or wealth management service. However, this figure rises to 56% among Young High Earners – perhaps suggesting there is more interest in wealth-focused advice among the up-and-coming high net worth generation.

Perspective IFAs v wealth managers

Our survey findings suggest that individuals at both ends of the age spectrum are likely to favour independent financial advisers (IFAs) over more specialist wealth management services – even when their wealth or income qualifies them for these more exclusive services.

This is because many potential clients are unclear what a wealth manager or private bank can offer that an IFA can't. "I would need to be very convinced of the benefits...it would be difficult to see what a private banker would bring me that an IFA couldn't," says one male Young High Earner.

Others have stayed with the same IFA who advised them when their net wealth was lower or that their family has used and few feel the need to change. "There's a tendency to stick with people you know in the present environment," comments a male Asset-Rich Elder.

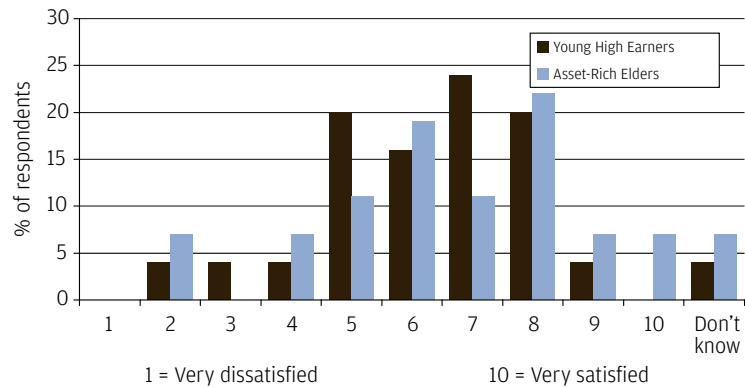
Another Young High Earner says he would be interested in moving from an IFA to a wealth management service as his wealth increases – but only "if there were clear visible returns on investment".

Of those respondents who have a wealth manager or financial adviser, most are reasonably satisfied with their offering and service. A higher proportion of older clients are likely to be very satisfied; younger investors show a slighter greater tendency towards dissatisfaction.

One in three Young High Earners with a wealth manager rate their satisfaction level at 5 or less, compared to one in four Asset Rich Elders. This suggests there is significant scope for wealth managers to target dissatisfied younger clients at competitor firms; it may also indicate the level of expectation among this younger age group is set very high.

Diagram 13: Satisfaction level with current wealth manager/adviser

Only asked to respondents who currently have a wealth manager/adviser



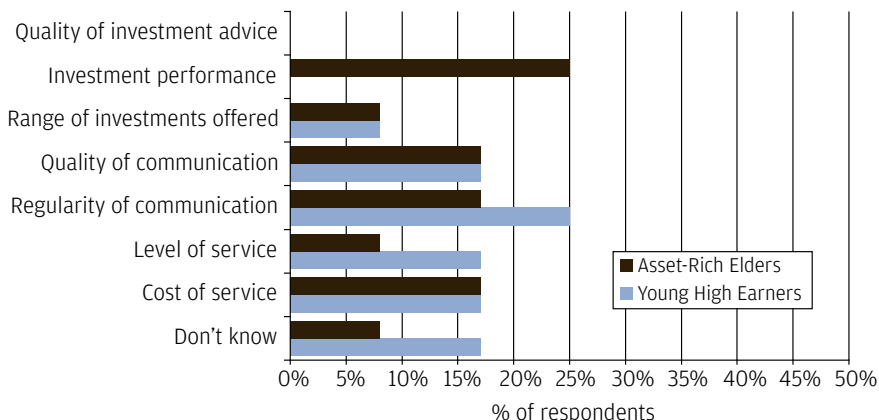
Source: JPMAM/Ledbury Research

Around one in three respondents would like to use a single wealth manager rather than spreading their wealth around different firms. This is interesting as it is generally assumed that high net worth individuals prefer to diversify across a range of advisers - and that this desire will become stronger, given recent bank failures.

It may be that the survey groups we have targeted (under-35s earning £100,000+ and over-55s with £250,000+ in free investable assets) fall below the level at which diversification becomes an issue. We wonder therefore whether there is potential for wealth managers targeting clients at this level to secure a core advisory position more easily than if they wait until the client's net worth increases.

Our sample group of respondents who have a wealth manager/adviser and are dissatisfied with their service is very small (12 Young High Earners and 12 Asset-Rich Elders). This needs to be borne in mind when looking at the findings in Diagram 20 showing reasons for dissatisfaction. What we can conclude is that poor service and communication are likely to be the greatest source of dissatisfaction among younger clients. Some older respondents cited unsatisfactory investment performance but no-one faulted their adviser/wealth manager on the quality of advice.

Diagram 14: Reasons for dissatisfaction



Source: JPMAM/Ledbury Research

Preferred approach to managing wealth

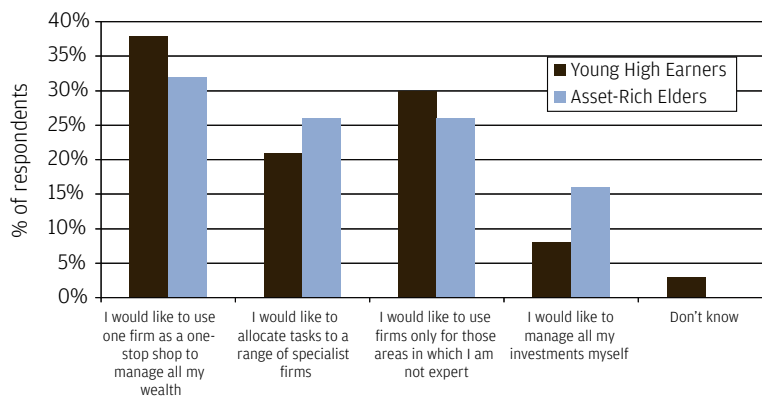
Many wealth management firms and private banks like to position themselves as a one-stop shop to handle all of a high net worth client's wealth management requirements. So how desirable is this to the target market?

Almost four out of 10 (38%) Young High Earners agree they would like to be able to use a single firm as a one-stop shop to manage all their wealth requirements. This is also the most preferred option among Asset-Rich Elders - although a sizeable proportion of older wealthy individuals want to allocate different tasks across a number of specialist firms.

But there is also a sizeable proportion of younger wealthy individuals who want to use third-party expertise to augment their own investment decision-making: 30% of High Young Earners said they would like to use wealth managers only for those areas in which they are not expert.

However, very few younger wealthy individuals want no investment advice at all. Only 8% of Young High Earners want to manage all their investments themselves compared to 16% of Asset-Rich Elders.

Diagram 15: Approach to using wealth management firms



Source: JPMAM/Ledbury Research

Even we were surprised by the high value that our respondent group - particularly younger respondents - place on personal referral. It is so powerful that we believe that all wealth management firms that wish to grow their client base need to put in place a systematic approach for generating new referrals from existing clients.

2.3 Choosing a wealth manager

We asked respondents what they would look for in a potential wealth manager - first when shortlisting firms and then when making the final choice.

Priorities when shortlisting managers

When shortlisting suitable wealth managers, the most influential factor was a personal recommendation or professional referral. This was cited by 82% of Young High Earners and 67% of Asset-Rich Elders.

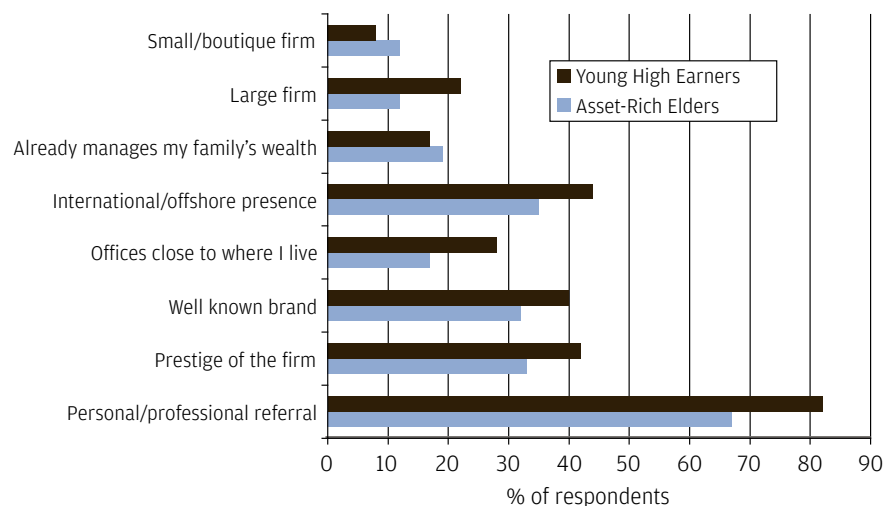
Brand and reputation were also important for both of our age groups. Younger clients are more likely to shortlist a large, prestigious firm with an international presence and well known brand. Indeed, an international/offshore presence was the second most important factor for Young High Earners.

However, it is worth noting that brand and prestige were more important than the size of a firm for clients in both age groups - suggesting there is a strong market for medium-sized and smaller wealth management firms that 'brand' themselves well.

Nonetheless, very few individuals from either age group will expressly shortlist a company because it is small - although a marginally larger number of Asset-Rich Elders favoured the idea of a small or boutique firm. Among both age groups, a firm with an international presence is more important than offices close to where they live.

Diagram 16: Important factors when shortlisting suitable wealth managers

Graph shows % of respondents who cited the following factors as 'Important' or 'Very Important'



Source: JPMAM/Ledbury Research

Potential clients place relatively little value on whether a wealth manager has local offices which corresponds with the low level of face-to-face interaction that most wealthy individuals want with their financial adviser (see pages 30-31). But a presence across international markets is important - suggesting that it is more valuable for wealth management firms to focus on developing a cross-border network of offices than a comprehensive regional presence in the UK.

Perspective **Starting the search**

They may be wealthy and professionally successful, but many high net worth individuals can be surprisingly unconfident when it comes to finding someone to manage their wealth.

“One of the reasons I haven’t gone [with a private bank/wealth manager] is because finding them can be a bit of a nightmare,” says one male Young High Earner. “You know, it’s not like they’re in the Yellow Pages. Maybe some sort of central point of access where you can gain access to everyone who’s out there [would be useful].”

Many of our respondents - particularly among Young High Earners - were receptive to the idea of events where they could meet wealth managers and their existing clients. One male Young High Earner who doesn’t yet have anyone to manage his assets says: “[I would like it] if they held events... where there’s like-minded clients...someone like me who’s a little sceptical who would say “Well, I was exactly the same, I invested £50,000....Here’s how I invested it... and here’s what happened after six months, after 12 months, and so on.”

Another says: “A good start-off point [to get to know a firm] would be some sort of event where you know lots of decent people are coming.”

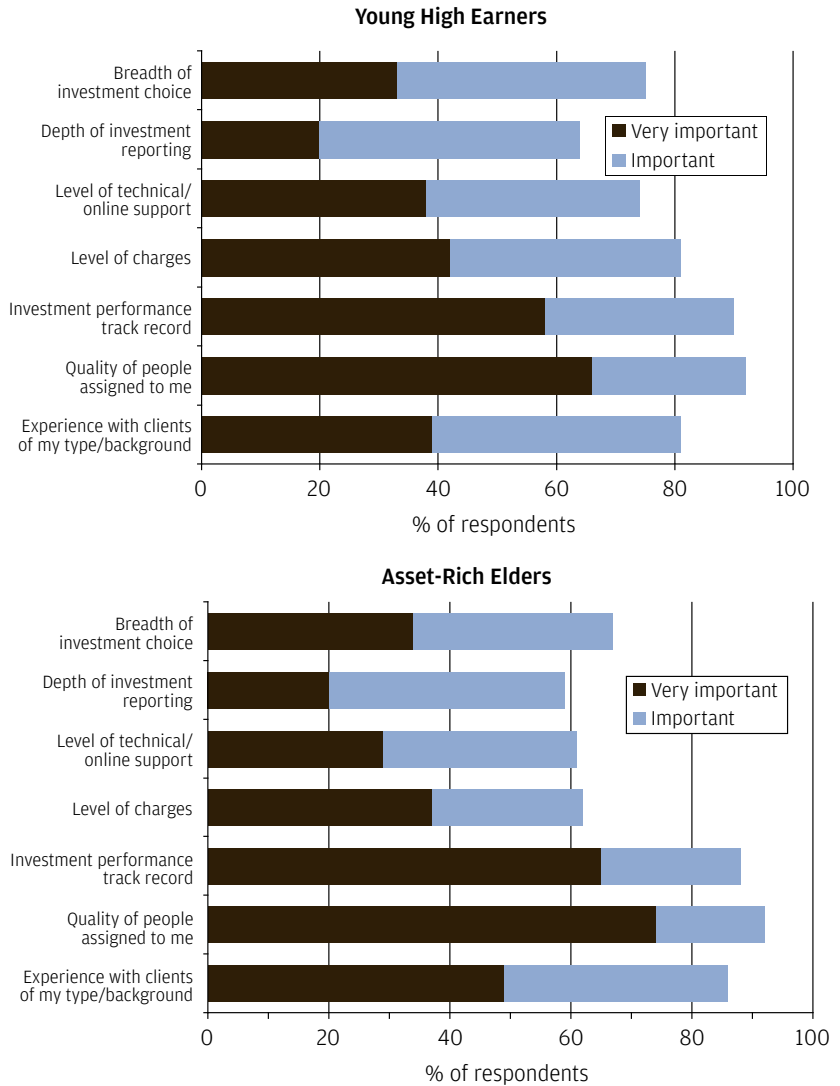
Personal referral by friends and family members and other existing clients was cited as the single most-effective way to get individuals to visit a wealth manager. A female Asset-Rich Elder says “It’s got to come down to networking....if someone introduced me to an adviser and said ‘Do you want to come and chat with him, I might do it....If I see someone face-to-face I can form my own judgment....I can’t do that on paper.”

Priorities when making the final selection

When further assessing wealth management firms, the most important factor for both age groups is the quality of the individuals who will be assigned to them - see Diagram 17. (In fact, we see that the quality of individuals scores far higher than the prestige or reputation of the firm, as shown in Diagram 16.) This is followed by the performance track record of the firm.

Both age groups are also keen for a firm to demonstrate experience with clients ‘of their type or background’. It is notable that older clients put greater focus on personal qualities - with slightly more Asset-Rich Elders rating the quality of individuals and experience with similar clients as ‘very important’.

Diagram 17: Most important factors when further assessing wealth managers



Source: JPMAM/Ledbury Research

As to other generational differences, Young High Earners are marginally more likely to assess a firm’s breadth of investment choice – although choice of investments still appears less important than actual investment performance results.

Younger potential clients are also significantly more concerned about a firm’s level of charges. More than 80% of younger respondents cited charges as important or very important, compared to just over 60% of older survey participants. Younger respondents also place more importance on a firm’s technical/online support.

Perspective

People like me

As our survey shows, over 80% of wealthy individuals place high importance on a firm with experience of clients of their type and background. So what does this mean in practice? When interviewed one-to-one, several respondents said they wanted to be grouped with individuals of a similar financial background, be that level of assets or level of financial sophistication/knowledge.

Those with their own business wanted a wealth manager who would appreciate the demands on their time and be able to complement and understand their own entrepreneurial approach to making money. Many were keen to see 'like minded' clients with a similar outlook on life and managing their wealth. Most of all, potential clients wanted proof that a wealth manager had managed portfolios similar to the type they require:

"I certainly wouldn't go with someone who hadn't touched my area [of investment] before. I don't want them to be finding their way with me," says a male Young High Earner. "I want [someone] who understands what I'm trying to achieve...an empathetic person who also understands I do have some experience in this area," adds a male Asset-Rich Elder.

It's the person, not the firm

Wealth management firms have long been concerned about the potential impact if a well-regarded adviser or relationship manager leaves and they are right to be concerned. Many of our respondents - notably among our older age group - agreed that they would be highly tempted to follow wealth managers to another firm if they were doing a good job.

"I'm a great believer in people making businesses. So there would be a temptation if I felt someone had performed well for me to move with them," says one male Asset-Rich Elder.

Says another: "I have been with my [wealth manager] in four different banks. I trust him completely. He is as honest as the day is long, very straightforward and that's what I like".

Only one interviewee thought that the firm was more important than the individual, as it sets boundaries within which the wealth manager must operate. But for most, it's the personal one-to-one relationship that really matters. One male Asset-Rich Elder believes the relationship between client and adviser is going to become increasingly important:

"That personal relationship is the only thing that matters. It doesn't really matter what the sign on top of the entrance door says, to me. It's that good relationship where you can explore things together and have a very open dialogue. That, to me, is the future".

The level of control that younger respondents claim to want over their portfolio management is surprising – with many saying they want an advisory service where they pre-approve every transaction. Clients are likely to be less insistent on approving every investment decision once they have reached a position of deep trust with their wealth manager. Nonetheless, these findings illustrate the value of introducing technology that can easily keep clients informed of all planned investment activity.

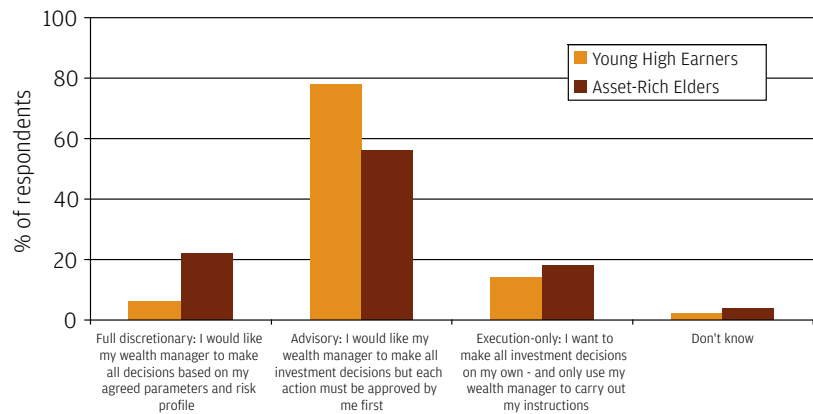
2.4 Investment preferences

Portfolio management services can range from full discretionary to execution-only. A portfolio can be tailored to a client or based on house models. Which approach do wealthy investors prefer?

What is clear is that high net worth investors want to retain a high level of control. The concept of full discretionary investment management, where the wealth manager is left to make all decisions in line with the client's agreed investment parameters and risk profile, is roundly rejected by our Young High Earners – see Diagram 18. Instead, almost 80% of this younger age group favours advisory management where the adviser makes the decisions but the client must be contacted to approve each action.

Older investors are more amenable to giving full discretion to their wealth manager but more still favour the advisory approach.

Diagram 18: Preferred level of control given to a wealth manager



Source: JPMAM/Ledbury Research

As to the investment portfolio itself, the majority of both young and older wealthy want a high level of bespoke structuring for their investment portfolio – with around half of respondents in both of our age groups wanting a portfolio that has been individually structured for their requirements.

The idea of a model portfolio that is used for all clients with similar goals and risk tolerances is strongly rejected – particularly among younger potential clients. However, a sizeable proportion of both age groups is interested in the idea of a model portfolio that offers the flexibility to accommodate additional investments as the client requests.

PROFILE: The National IFA

“We are keen not to cut things back to the bone in this environment. In fact, we are recruiting new people as there are some very talented people on the market right now.

Strong client relationships are essential in this market. We've always understood that it's important to talk a lot to clients, even when times are good and performance is fine. If you wait until times are bad, you simply look desperate.

As a wealth manager, you have to be sensitive to how clients want to interact. Some want to handle most of their investments themselves and just contact their wealth manager for the last piece in the jigsaw.

You also need to know what share of wallet you have and whether a client is comfortable talking about assets and investments held elsewhere - otherwise they may not get the most effective solution. Given recent events, people are likely to become even more sceptical about handing over their assets to one company to look after.

Client referral is a big source of new business. We use a range of strategies from holding events where clients and prospects can mingle and see presentations by our investment managers to straightforward cash incentives for introducing prospects. We are also beefing up our new business teams. The strongest source of new business is our financial planning arm because people want a holistic wealth solution that arranges all their financial affairs.

We only have one office and clients seem fine with that. We offer face-to-face meetings if clients are in London but we don't visit clients around the country, except major portfolios where trustee meetings may be involved. Every so often a client might leave for the reason that there's a chap down the road they can see at any time - but not enough to change our servicing model.

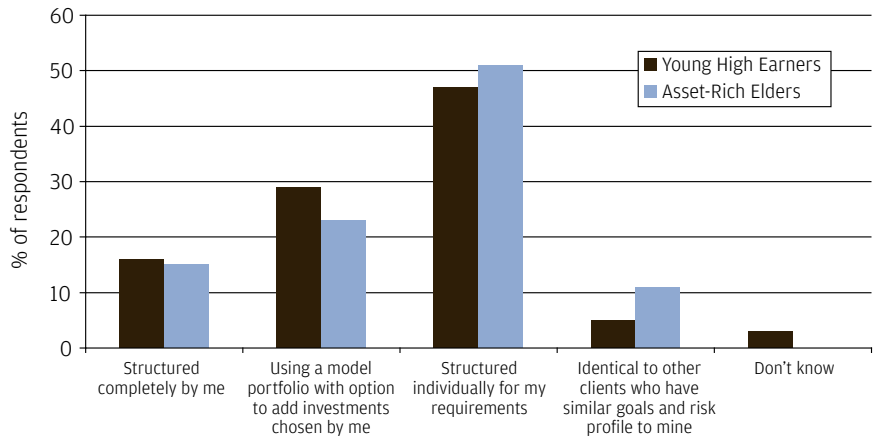
Clients really aren't interested in investment sophistication. It's good to be able to show you have expertise in the more esoteric investments, but most clients just want something that will do the job. Typically, the only clients who ask what investments you are using are financial professionals themselves.

All clients really care about is the headline performance number - and that's in absolute, not relative, returns: have you lost them money or made them money? How you get there is of less interest - they just want the confidence that you are doing it right.

We base fees on the size of a client's portfolio but we also offer time-based charging for financial planning - for example, when a client asks us to track down old pension policies. But it can be hard for clients to accept fees and get out their chequebook - especially if the ultimate advice is 'do nothing'. Commission that isn't seen as a separate cost is actually far more acceptable to many people.

Which firms are likely to suffer in this market? Wealth managers that only offer a selection of services. You need to be able to offer the full range of investment, financial planning and tax expertise. People can do a lot themselves online so it does become hard to justify the role of the wealth manager unless they can genuinely add value for a client.”

Diagram 19: Preferred structure of investment portfolio



Source: JPMAM/Ledbury Research

Perspective

Performance, performance, performance

Most of the respondents we interviewed said they expect to see tangible proof of a wealth manager’s investment performance. A high number said they wanted to be able to see the performance of existing clients’ portfolios or be able to speak to clients with comparable objective about the performance they have achieved.

Some believe they should be able to follow absolute performance on an ongoing basis: “I would like to see how much capital I gave [the wealth manager] and the value of that today...and what the increment has been over the past month. I mean it’s just like a high-interest account. You see what interest is earned in a month, so [a wealth manager should offer] something similar,” says a female Asset-Rich Elder.

Among experienced investors, a common sentiment was that the wealth manager had to be able to demonstrate he or she could do a better job than the investor could on their own: “They...need to show it’s cost-effective for me to use them,” says a male Asset-Rich Elder. “There’s no point in me paying a lot of fees if they don’t perform any better than I could do myself.”

Breadth of investment choice

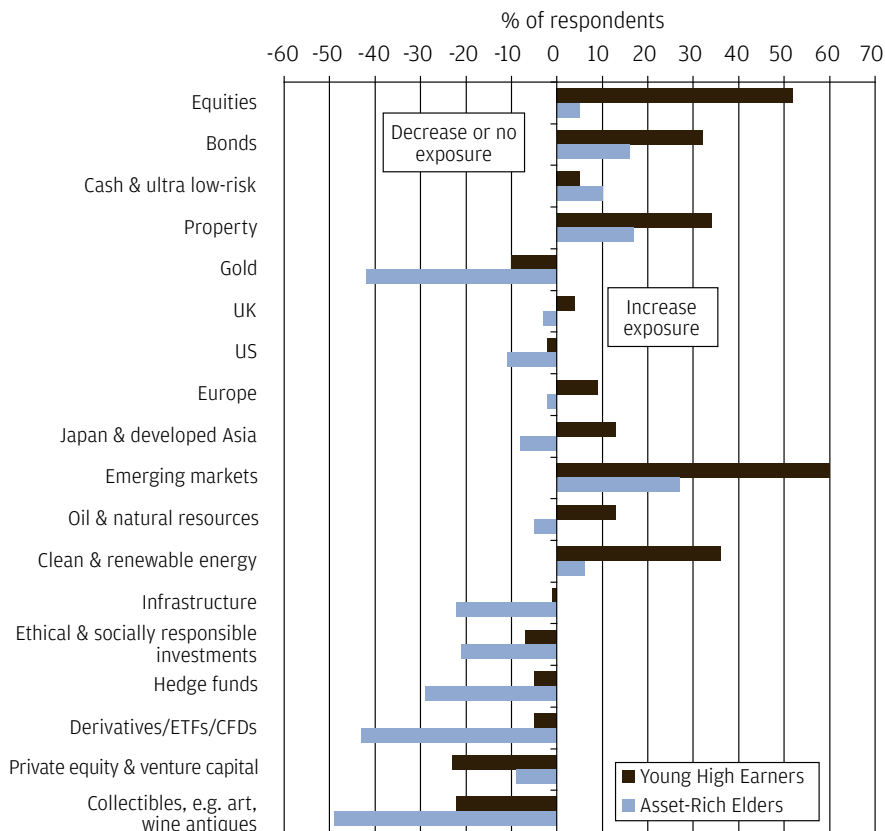
Throughout this research, lots of respondents have referred to the importance of a wealth manager’s investment performance track record. But the range of investments offered by a wealth manager seems less important. As we saw earlier (Diagram 17, page 24), only around a third of both age groups cited ‘investment choice’ as a very important factor when selecting a wealth manager.

This is reinforced when we look at the investments that high net worth individuals expect to make in the next five years - see Diagram 20 opposite. The asset classes to which our survey group would like to increase exposure are broadly conventional - equities, bonds and property. When it comes to more esoteric areas such as hedge funds, derivatives and private equity, the majority of respondents in both age groups either wish to decrease exposure or have no exposure.

Our findings indicate a very low level of interest among both age groups in alternative investments such as hedge funds and derivatives but a strong interest in the traditional asset classes of equities, bonds and property. Given recent events in financial markets, private investors are likely to become even more sceptical of these more esoteric asset classes, underlining the need for wealth managers to focus on core asset skills.

Diagram 20: Changes to investment exposure in next five years

Graph shows net percentage of respondents who would like to increase exposure or reduce/have no exposure to each asset class.



Source: JPMAM/Ledbury Research

Two non-core asset classes are attracting a notable level of interest. On a net basis, 60% of Young High Earners are looking to increase their exposure to emerging markets. There is also a high level of interest among this age group in investing clean and renewable energy - which is clearly seen as an attractive investment prospect by more Young High Earners than traditional energy sources such as oil.

Given recent events in financial markets, it is perhaps interesting that few investors in either age group are looking to increase exposure to cash and ultra low-risk investments significantly over the next five years. Also, there is clearly negative sentiment towards gold, although it was being sought as a safe haven in Q3/ Q4 2008.

However, it could also be that in taking a five-year view, respondents are looking to the long term and are retaining faith in equities, given that their stated main investment priority is to maximise investment growth (see Diagram 9, page 15).

Perspective
Specialist or all-rounder?

When it comes to investment prowess, few high net worth individuals expect their wealth manager to be good at everything. However, they do expect expertise in any investment area or asset class to be accessible either within the firm or provided by a third party.

“A wealth manager needs to be a good generalist. He then needs to have colleagues or associates he can call on who specialise in other areas if required. But I do expect my personal adviser to be ahead of me in terms of general awareness,” says a female Asset-Rich Elder.

Other interviewees believe a wealth manager should have just enough knowledge of specialist areas like hedge funds and infrastructure to know when they would be a good fit in a client’s portfolio. “[My wealth manager] would have to have general expertise of all these [specialist] areas but know where to go for [more in-depth] information. I think it’s important for him to have a knowledge of all areas and to be advising me where I should be going,” says a male Asset-Rich Elder.

Others believe definitions of core and specialist asset classes are changing and wealth managers need to be aware of this and keep their knowledge up to date. “There has to be a balance, hasn’t there?” says a male Young High Earner. “A wealth manager has to concentrate on core areas of investment but they have to have a view on alternatives as well. One of my best-performing asset in recent years has been commodities, which I don’t actually regard as alternative – it should be regarded as a core asset class.”

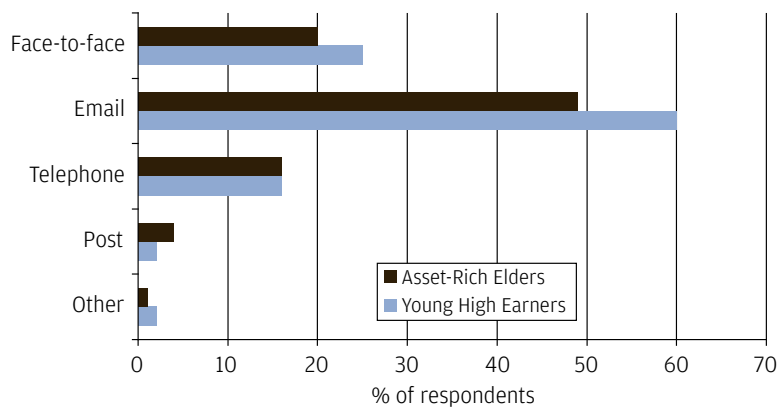
2.5 Communication and client service

Poor or irregular communication was cited as one of the main reasons for dissatisfaction with an existing wealth manager or financial adviser (see page 21) so it pays to get the level and type of interaction with each client absolutely right.

Wealth management, as we have seen throughout this survey, is considered to work best as a close relationship between individuals. Nonetheless, most high net worth clients prefer to communicate with their wealth manager remotely.

Email is proving extremely popular in this respect and was selected as the most popular means of communication by both age groups in our survey. Perhaps surprisingly, younger respondents appear more keen than older investors to meet their wealth manager face-to-face. Only one in six respondents in both age groups want to conduct the relationship by phone. Both age groups want very little communication by post.

Diagram 21: Preferred forms of communication with Wealth Manager



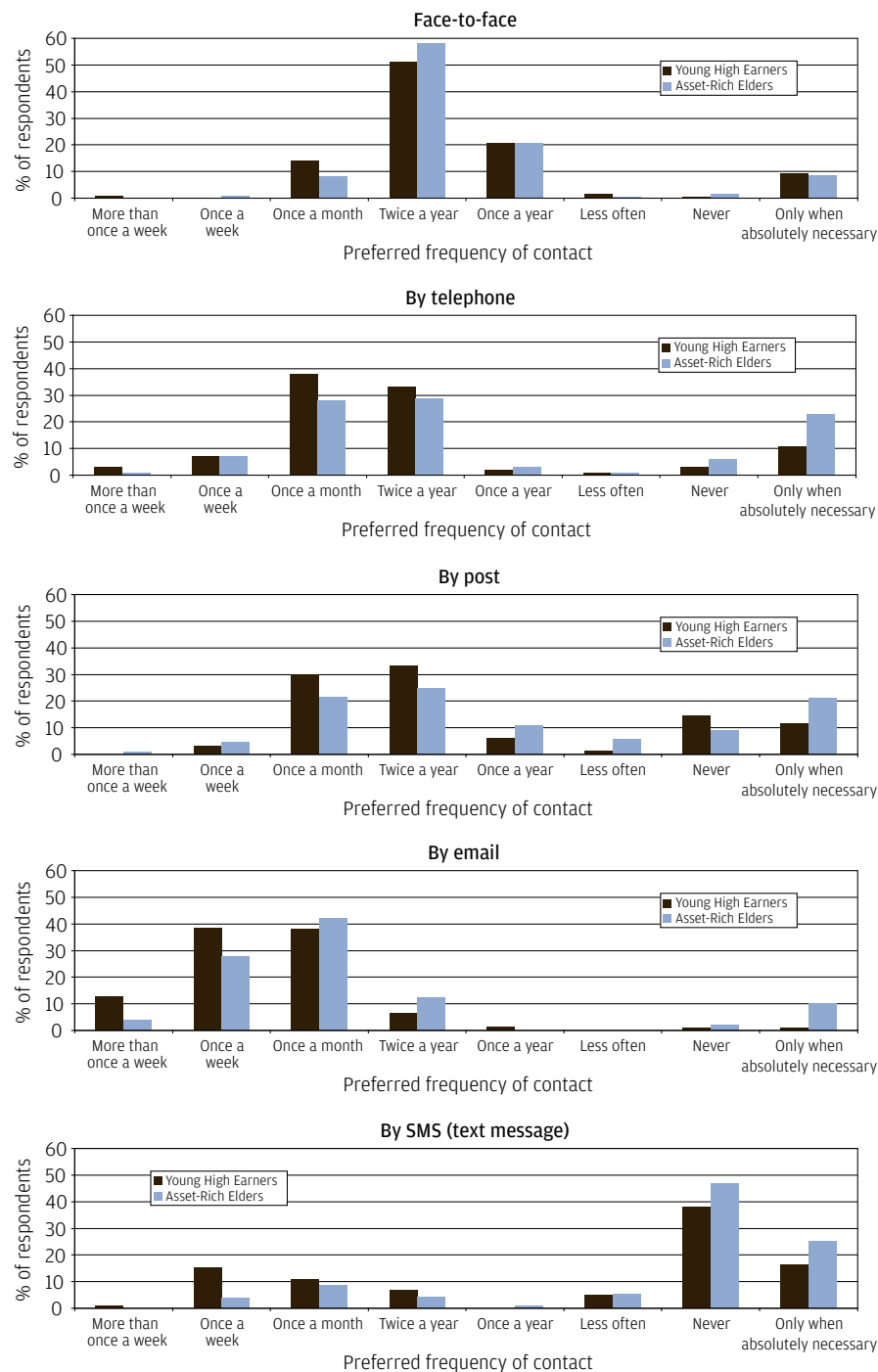
Source: JPMAM/Ledbury Research

There is a clear generational difference in how much clients would like to communicate with their wealth manager – and firms need to be aware of this. Indeed, wealth managers should not dismiss the fact that there appears to be a small but highly communication-hungry proportion of Young High Earners who would like to be texted every week.

The convenient, controllable nature of email means that potential clients are also willing to be emailed on a very regular basis. Most of our respondents in both age groups would like to be contacted by email once a month or more frequently – see Diagram 22. Indeed, around 50% of Young High Earners would like their wealth manager to email them once a week or more. Conversely, face-to-face contact is only expected once or twice a year.

While email is considered highly acceptable, other forms of electronic communication are not. The vast majority of respondents say they never want their wealth manager to text them – although SMS messaging is clearly more acceptable among younger clientele.

Diagram 22: Preferred methods and frequency of contact with wealth manager



Source: JPMAM/Ledbury Research

It is important to note that all but one of the online servicing options we suggested were favoured by 50% or more of our survey respondents across both age groups. In comparison, many other ancillary services we suggested (see Diagram 24) registered interest typically with only 20-30% of respondents.

The expectation and desire for online functionality is now extremely high among would-be clients. This is an area of servicing on which wealth managers need to focus as a matter of urgency if they don't yet have a comprehensive offering.

Perspective Keeping in touch

A high number of survey respondents, particularly among Young High Earners, say they would like their wealth manager to contact them by email once a week to once a month. So what would they like to be contacted so frequently about?

When interviewed one-to-one, most respondents wanted information regarding the performance of their investments and an update of the current state of the markets or sectors in which they are invested.

Many also wanted clear regular guidance on how they should be positioning their portfolio and regular updates on new products or investments that could be of interest to them.

Several older investors felt their wealth manager should regularly update them on any areas of potential risk - ideally ahead of events moving against them: "Like Northern Rock - I would want to hear that kind of information very quickly" says a female Asset-Rich Elder.

While all respondents want to be very regularly updated, a few are sceptical about being contacted too frequently by their wealth manager: "There's a cost for everything," says a male Young High Earner. "I wouldn't want someone to contact me all the time simply because it would bring down efficiency."

Online servicing

Online functionality is seen as an opportunity for investors to retain control of and stay up to date with their investment portfolio. Both age groups welcome increased online functionality - although there is greater confidence among Young High Earners in using online features to carry out tasks such as making changes to their portfolio or setting investment parameters.

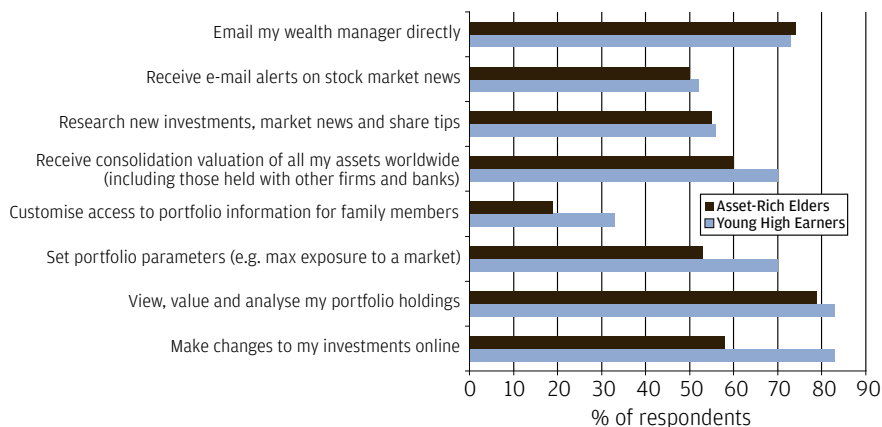
Young clients especially like the idea of being able to follow the value of all their global assets across different firms in a consolidated valuation - something that wealth managers are starting to explore.

Around half of respondents in both age groups wanted their wealth manager to use the internet to provide news about markets and investment opportunities - although it is notable that these services are of less interest than tracking the progress of their investment portfolio - perhaps, as one respondent points out, because a wealth of this information is already available via services like Bloomberg and CNBC.

Where such information is provided, potential clients want it to add genuine value to their activities, and not simply replicate what's available on universally available news services (see 'That certain something', opposite).

Diagram 23: Desired online functionality

Graph shows % of respondents who rated the following features as 'Desirable' or 'Very desirable'



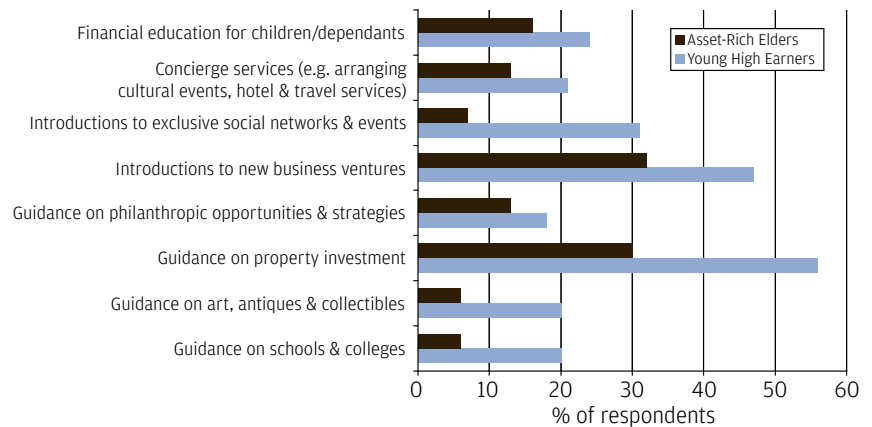
Source: JPMAM/Ledbury Research

Other services

Some of the up-and-coming high net worth generation appear to want their wealth manager to be more than just an investment manager. Guidance on property investment and introductions to new business ventures were widely welcomed as possible ancillary services by Young High Earners. A third of these younger wealthy were also interested in receiving introductions to exclusive social networking events via their wealth manager.

These additional services were of far less interest to our Asset-Rich Elders - although they agreed with younger investors that introduction to new business ventures and guidance on property were of most value. Older investors are clearly far less interested in non-financial add-ons such as concierge services or social networking. But these services are attracting interest among 20-30% of our up-and-coming high net worth individuals. There is clearly potential value for firms to explore how they can enhance their core wealth management offering with other means of serving and supporting their younger clientele.

Diagram 24: Interest in other ancillary services



Source: JPMAM/Ledbury Research

Perspective That certain something

Two words that regularly cropped up when we interviewed respondents one-on-one about their wealth management expectations were 'creativity' and 'innovation'. Wealthy individuals want their special status reinforced by being offered ideas they may not get elsewhere. "I'm always being steered towards stock market funds. Well let's look further afield," moans one male Young High Earner.

"Just come with new ideas, be inventive in what you're doing," requests another.

For many, innovation means delivering an information advantage, not necessarily new products: "[A wealth manager] should have a lot of information - and be able to protect their clients' interests," says a female Asset-Rich Elder. "For instance I would have expected them to know about Enron... before it dawned on the general public."

A male Young High Earner agrees: "[Give me] stuff I may not necessarily read on Bloomberg or CNBC," he says.

This approach requires resources, passion and genuine depth of investment knowledge. But those wealth managers who can meet these expectations will be rewarded with loyalty from these demanding but time-pressed clients. As the female Asset-Rich Elder above says: "If they're attentive to me, protect my interests and constantly giving me new fresh ideas then I'll stay with them."

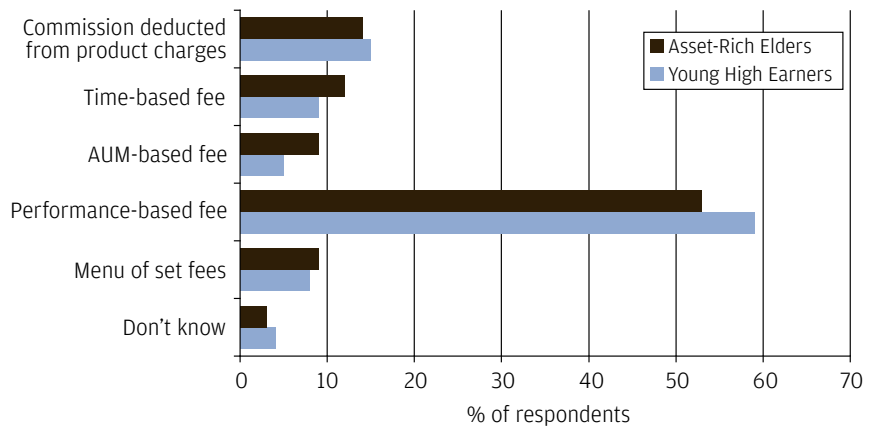
2.6 Remuneration

The Financial Services Authority is looking at ways to encourage financial advisory firms to move away from sales-led commission and towards customer-agreed remuneration that separates the cost of advice from the cost of product manufacture.

In many quarters, this has been interpreted as moving towards fees. However, our research shows that almost all forms of fee-based charging are less popular than commission – except for one overwhelming exception: performance-based fees.

Performance-based fees were favoured by 53% of Asset-Rich Elders and 59% of Young High Earners. Fees based on assets under management (AUM) proved the least popular means of charging – although the vast majority of fee-based wealth managers currently calculate their annual fee on the size of a client’s portfolio.

Diagram 25: Preferred method of paying for a wealth manager’s services



Source: JPMAM/Ledbury Research

Perspective

Paying for results

Among all our interviewees, there was a ringing endorsement for performance-related fees. “I think performance-based pay makes [wealth managers] a little bit more focused and if I don’t make money, they shouldn’t make money,” says a male Asset-Rich Elder.

A male Young High Earner agrees: “I think a performance-based fee would truly stake [a firm’s] reputation on being a success, wouldn’t it?” But there are reservations about performance-linked fees among older investors. One male Asset-Rich Elder strongly supported the idea of performance-based fees but was concerned that the rates of calculation would be high. A female Asset-Rich Elder was concerned that performance-based remuneration puts too much pressure on a wealth manager.

Then there’s the question of whether performance should be rewarded in falling markets. Many interviewees subscribe to the opinion “if I don’t make money, they shouldn’t make money”. But others see merit in rewarding relative outperformance of any kind. One male Young High Earner says: “If the portfolio can outpace the markets, whether it’s growing more than the standard indices or it’s shrinking less, then that deserves a performance-related payment.”

No-one we interviewed had been offered performance-related fees as an explicit option, suggesting this could be an extremely valuable differentiator for forward-thinking firms.

As one male older investor points out: “The most important thing is that someone grows your wealth, and grows it at a rate that is faster than you could do it yourself and...faster than the competition. I pick up quite a few mailshots from wealth management companies. You get a lot of generalities...but nothing that actually says ‘This is the performance we can give you’”.

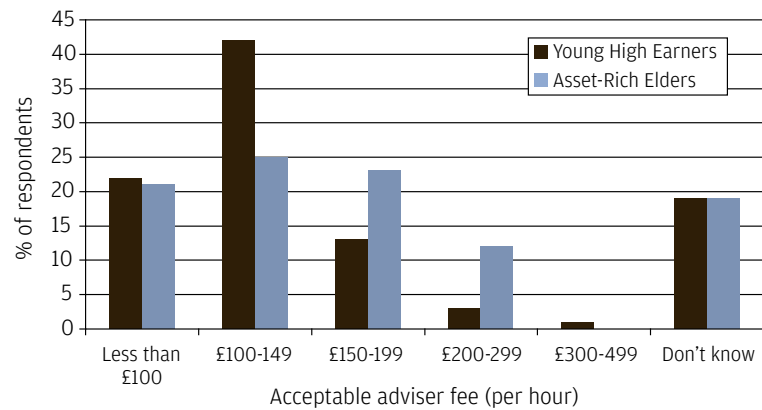
Acceptable fee levels

To get an approximate idea of how much potential clients are willing to pay for the services of a wealth manager, we asked our survey respondents what would be acceptable as a time-based fee for a senior adviser.

As we saw earlier, more than 80% of Young High Earners cited charges as a key factor when selecting a wealth manager. It is clear this age group expect firms to be competitively priced with two-thirds (64%) looking to pay less than £150 an hour - see Diagram 26 below. Asset-Rich Elders are willing to accept higher charges - one in eight would be willing to pay £200-£299 an hour.

But we also see that almost one in five people in both age groups say they don't know what is an acceptable hourly charge - indicating that there is currently little visibility and comparability around the charges that wealth managers levy.

Diagram 26: Acceptable time-based fee for services of a senior adviser in a wealth management firm



Source: JPMAM/Ledbury Research

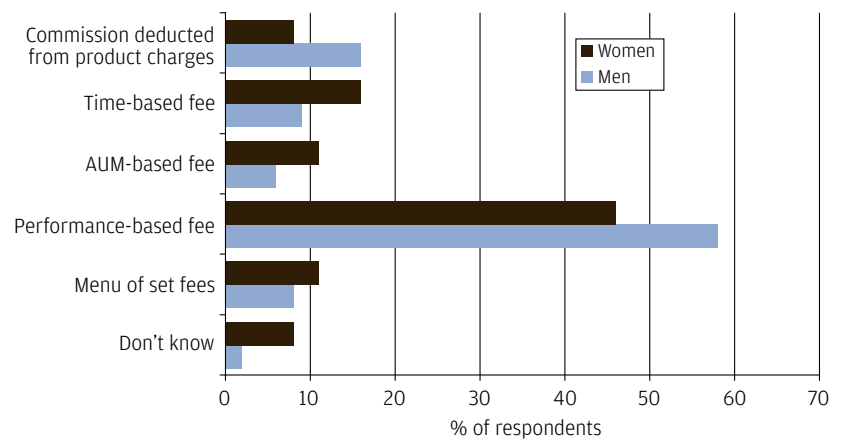
Perspective

What women want

Our research was conducted across 163 men and 37 women, reflecting the proportion of men to women among the UK's high net worth population (84% to 16%). Overall, we discovered male and female respondents were broadly identical in outlook and expectation. However a few gender-specific differences emerged, which are worth highlighting:

- **Locality** - Women are slightly more likely to favour wealth managers with offices close to where they live. Thirty-six percent of women cited this as important compared to 20% of men.
- **Investment confidence** - Women seem less confident in their own investment skills. Only 8% of women said they want to make all investment decisions themselves compared to 18% of men.
- **Networking** - Women are more interested in introductions to exclusive social networks and events: 27% of women cited this as a desirable service from their wealth manager compared to 17% of men.
- **Educating dependants** - Twenty-seven percent of women were very interested in using a wealth manager to provide financial education for their children compared to 18% of men.
- **Risk tolerance** - Women are less interested in maximising capital growth - only 42% cited this as their top priority compared to 62% of men. They also show less interest in higher-risk or complex investments. Women are less likely to increase exposure/ more likely to want no exposure to: US equities, emerging markets, hedge funds, private equity and venture capital trusts.
- **Socially responsible** - Forty-one percent of women want to increase their exposure to ethical and socially-responsible investments (SRIs) compared to 18% of men. Thirty percent of men want no exposure to SRIs compared to only 19% of women.
- **Remuneration preferences** - Women show different preferences to men in the way they think a wealth manager ought to be paid, showing more interest in a wider range of fee options - notably time-based fees - and less interest in commission. But performance-based fees are strongly supported by both men and women.

Diagram 27 - Remuneration preferences among men and women



Source: JPMAM/Ledbury Research

PROFILE: The traditional discretionary manager

“The recent trends that we have noticed are that clients are looking for quality, impartial advice and are highly disenchanted with an approach that simply tries to sell them products. If there's one thing that will come out of recent market events, it's proof that many structured and hedge fund products don't work when stress-tested.

We have learnt to be very straightforward in the way in which we have gone about putting strategies in place for clients. We look to be very 'vanilla' and not too clever. Most important of all, we try not to be commission based. When it comes to open-ended funds, we will always go for the institutional share class. For a structured product such as an index fund with an options strategy, we'll often play one bank off against another to get the best terms.

We have a standard fee scale but north of £5 million, things become more open for discussion. The main choice clients have is whether to have a combination of investment management fee and transactional commissions, or whether they go for a clean fee which is marginally higher but involves no transactional commissions. Clients definitely prefer fees to be transparent. Given a choice, clients tend to go for the clean fee even though a lower management fee and higher commission is actually more tax-efficient for UK individuals.

We are open to negotiation on performance-based fees but it is much more complex to administer, in terms of calculating it and agreeing it. You also get into difficult territory if some of your clients have a performance-based fee and others don't. It would be very difficult to explain to someone from the FSA if a portfolio with a performance fee has outperformed one that hasn't, for example.

Clients are very interested in performance and it would never occur to us to present to a new client without incorporating performance data.

Increasingly, clients want to see a basket of benchmarks. The FSA makes a great issue about using one primary benchmark for each portfolio. But in reality, clients want to know how they are doing against cash, the stock market, and inflation - a whole range of measures.

We don't have a big sales team. Instead we put all our efforts into doing incredibly well for our existing clients and servicing them to the very best of our abilities. If you are doing that, then your clients become your best salesforce.

The key ingredients for retaining clients are performance, servicing and security. Servicing is crucial - we are at our desks managing money on behalf of clients pretty much every day of the week. We are not constantly on the road trying to get new prospects. So if a client emails us, he knows he'll get a response.

I think wealth management at this level is a highly unscaleable business. The only way you can achieve scale is to turn the whole business into a sausage-making machine - at which point you lose the service.

We always talk about 'care' which is something that is very hard to find in this industry. To find a house that offers proper security of assets, fund managers who are competent but also care about you, the client - that's a very rare combination.”

Part three - Positioning for the future

In this section, we assess what our research revealed about what wealth managers need to do to ensure success – both to weather immediate market challenges and to attract the high net worth clients of the future

The UK wealth management industry faces massive challenges in the short term from volatile stock markets and a potentially contracting client base. At the same time, firms need to keep an eye on the long term and ensure they are positioned to meet the needs of an up-and-coming generation of clients whose needs and expectations may be different from those of their current traditional client base.

3.1 What our findings tell us

Our research among affluent and high net worth individuals has revealed a great deal about how current and potential clients view the wealth management industry and what they want from it. The key conclusions we would draw from these findings are as follows:

Wealth managers need to differentiate themselves

A lot of our respondents are unsure of the differences between categories of advisory firms and are unsure what firms that position themselves as wealth managers can offer that an independent financial adviser (IFA) cannot.

Wealth managers need to do more work to define and differentiate themselves and not assume that higher net worth individuals will automatically favour their services over those of a mainstream IFA. Points of differentiation might include:

- Dedicated focus on investment expertise
- Ability to offer both packaged and non-packaged (i.e. direct equities) investments
- Fee-based rather than commission-based remuneration and therefore a focus on advice not product sales.

Brand and reputation matter more than size

Our respondents say they would consider brand and prestige when shortlisting wealth management firms. These aspects are more important than a firm's size. We believe there is therefore strong opportunity for smaller 'boutique' and medium-sized firms that market themselves well and build a strong brand and client proposition. This might be even more apparent now that recent events in the banking sector have shown there is no such as thing as an institution that is "too big to fail".

There appears to be little need for firms with ambitions for national coverage to have a high regional presence. Fewer than a third of high net worth individuals are concerned whether a firm has offices close by. However, around 40% would like a wealth manager to have an international presence, or at least the ability to service clients based overseas.

Personal referral is the most potent source of new business. Many wealthy individuals, particularly those at the younger high-earning stage, say they haven't time to research wealth management firms or don't know how to go about doing this. Many therefore place great store on personal recommendations from friends and family. Equally, they are receptive to endorsements from existing clients, provided they identify strongly with those clients.

Wealth managers might therefore do well to harvest new business opportunities from their existing client base in two ways – first by encouraging referrals from their clients' friends, colleagues and family; and second, by holding networking events where existing and potential clients can meet. Particular effort should be made to pair up clients and prospects of a similar background, age or investment outlook.

Quality of personnel will sell the firm

If there is a deal-breaker when it comes to signing up a new high net worth client, our research suggests it is the quality of the people assigned to the potential client. Wealthy clients want a close empathetic relationship with a named adviser/wealth manager who they can contact (preferably by email) at any time.

Given the heightened cynicism among investors, we believe firms that only assign sales personnel to liaise with prospective new clients will do increasingly badly. In this competitive market, resources need to be organised so that prospective clients – even those with entry-level wealth – can meet the individuals who will be managing their portfolio and handling the day-to-day relationship.

Never underestimate the desired level of control or information

We were surprised in our findings to see the high level of control and information that our survey group wanted over their investments. Advisory management was favoured over full discretionary management, with many potential clients – notably among our young high earners – wishing to be informed *every time* their wealth manager wants to make changes to their portfolio.

Allied to this, many would-be clients expect to be kept fully informed – not only when changes are made to their portfolio but when any event arises that could affect their investments or strategy.

These are resource-intensive expectations to meet. But this level of attention and information could be achieved with intelligent use of new technology. As our research shows, high net worth clients, both young and old, favour the convenience and controllability of email. There may be scope for some wealth managers to review how they are emailing clients and whether more value can be added to these communications – for example, emailing weekly valuations rather than simply posting quarterly or half-yearly ones. Firms should also see how email and online functionality can complement each other.

Online functionality is becoming a must-have, not a nice-to-have

Our group of Young High Earners is extremely comfortable operating online. As such they not only favour but expect a high level of internet-based functionality from their wealth manager – just as they do from their bank. Quite bluntly, wealth managers who cannot offer this functionality may not secure younger clients' business, no matter how good the rest of their proposition.

Internet-based functionality should include online portfolio analysis, valuations and transaction history. Some Young High Earners want to go even further and be able to set portfolio parameters online and adjust their portfolio remotely.

Clearly there are issues as to where adviser oversight ends and client control begins, but wealth management firms now need to consider how they can optimise the client online experience if they are to attract the next generation of high net worth clients.

Transparent investment performance is a key differentiator

Nine out of 10 respondents in both of our age groups cited performance track record as important or very important when assessing wealth managers. Many say they want to see the returns achieved by clients who have similar goals to themselves.

Showing performance has often been a problematic area for wealth managers, particularly where client portfolios are constructed on a highly bespoke basis (not to mention the regulatory limitations on promoting past performance). But overcoming this challenge could be fruitful, given that a number of wealthy individuals we spoke to said they were highly frustrated by the lack of performance numbers in the marketing literature they received from firms.

In our view, prospective clients will pay special attention to firms who are willing to be explicit about the performance results they are delivering for existing investors.

Absolute results are more important than investment choice

Our survey group shows far more interest in investment results than what is used to achieve them. Relatively few respondents prioritise wealth managers who promote investment choice as a selling point.

At the same time, respondents are also quite conservative in the type of investments they want to use. Even among young High Younger Earners, the investment focus is on equities, bonds and property. While there is high interest in more specialist sectors and investment markets such as emerging markets and clean energy, interest in more complex instruments such as hedge funds and derivatives for their own sake is low. As wealth managers have attested, there is clearly widespread scepticism among investors towards complexity and a growing demand for investment simplicity and transparency.

What clients are interested in is the results a manager can achieve for them. Moreover, the focus is on absolute returns rather than relative performance. Even among this wealthy and relatively sophisticated constituency, the main concern is still: “Have I done better than if I had left my money in a savings account?”

Clients want to pay for actual results

Our research shows strong enthusiasm among both young and older potential clients to pay wealth managers based on the performance they have achieved.

Performance-based fees are prevalent among hedge funds and have been introduced for a small number of retail investment strategies as well. However, the idea of wealth managers being remunerated on the basis of how far they have outperformed a benchmark is relatively untested.

Performance fees throw up a range of potential issues and pitfalls for wealth managers: how should they be calculated; will revenue become too correlated to market movements (arguably it shouldn't if fees are based on relative outperformance); plus how does a firm seek remuneration for advice and services that are not investment-based? It can also be argued that performance-based fees have not benefited hedge fund investors recently and can encourage investment managers to take excessive risks.

Many wealth managers might also point out that annual fees based on the size of a client's portfolio are already performance-based. Likewise, trail commission is calculated on a fund's current value. So addressing the demand for performance-based remuneration may simply be a matter of articulating more clearly how the client's and adviser's interests are already aligned.

However, it cannot be ignored that simple AUM-based fees/commission means a firm gets a slice of all of an investment's current value. A wealth manager who can show an element of charging that is based solely on out performance/alpha would have a powerful differentiator.

Younger clients want a two-way business proposition

Wealth management is no longer a one-way business opportunity. We believe younger high net worth clients may start to view their wealth manager's client base as a valuable resource for cultivating social and business contacts among like-minded people.

There are many ancillary services that wealth managers may consider offering to complement their investment expertise, but social and business networking appears to be the most valued among our target client base.

Creativity and proactivity really matter

Finally, what appears to be most valued among high net worth investors is a wealth manager who can offer them something a little more than the rest - for example warning them about bad market news ahead of the general market, or thinking more laterally about investment strategy.

This doesn't mean that high net worth clients want a wealth manager who takes unusual risks or uses esoteric products (quite the reverse). But many want a wealth manager who is active, engaged and constantly assessing how they can position clients to take advantage of/be protected from the current and future market events.

3.2 Attributes of success

As we said in part one of this report, future success in wealth management cannot be based on guesswork about what clients might want. Firms need to work hard to ensure they offer the right mix of attributes and expertise to attract and retain clients, stabilise revenue and ensure profitability. Below we list what we conclude to be the key areas that firms need to focus on to assure future success.

1. Strong technology focus

We believe that wealth management firms that haven't yet introduced platform technology to their business will increasingly find themselves struggling to keep up with their peers and competitors. As we have seen throughout this report, wealthy clients are demanding - they expect regular communication, strong one-to-one relationships and an exceptional level of foresight from their wealth manager. Meeting these 'front office' expectations is highly resource-intensive - and is only commercially viable if a firm can build efficiencies into other parts of its business.

The most obvious area is processing and administration. If a wealth management firm is to meet front-office expectations, then it needs to do all it can to streamline back-office processes. The answer is to use platform technology for as much transactional activity and client reporting as possible. Moving all these functions 'on platform' can enable a firm to focus its attention on greater value-add activity.

Indeed, it is only by using this technology that firms can hope to scale up their client base without sacrificing quality of client servicing. Platform technology can also deliver the online functionality that clients themselves now expect, at minimal additional cost to the wealth manager.

A final point: as all transaction activity is electronically recorded as it happens, platform technology is invaluable to enable firms to retain an up to date picture of client and adviser activity, distribution/type of assets under advice and the net contribution that each client and adviser is making to the firm. The value of this real time management information (MI) cannot be overestimated.

2. Transparency and simplicity...

Throughout this report, wealth managers have reported investors' disillusionment with complex structured products and opaque charging structures. Likewise, investors have voiced their frustration with wealth managers who cannot demonstrate what performance they are able to achieve.

We believe there is a groundswell of demand for simplicity and transparency in wealth management - as in the wider financial services industry. To attract new clients in this more sceptical investment environment, this transparency needs to extend to:

- Showing what performance results have been achieved for real clients
- What investment strategies/instruments are being used and how they work
- How the client will pay for the wealth manager's results.

As we have documented, even highly sophisticated individuals have relatively little interest in complex and esoteric investment vehicles, or being offered wide investment choice. In the same vein, relatively few respondents were interested in complex tax-saving vehicles, but were most interested in ISAs and pensions. Instead prospective clients want to see good investment based on using core asset classes.

3... and proven risk-adjusted performance

Wealthy clients - especially among our younger age group - are now looking for clear proof of the value of using a wealth manager. In the past, 'added value' has often focused on service, support and the sheer convenience of having someone else to manage investment transactions.

We believe wealthy clients are now starting to focus on performance - and absolute performance in particular - as the most critical value-add. That means a firm must be able to show clearly what performance results it can deliver versus the market, cash, inflation and - in some cases - the clients themselves.

Our report shows that clients are primarily looking to their wealth manager to maximise capital growth in the long term. However, if stock market and property declines are protracted over months if not years, we believe wealth preservation and risk-adjusted performance will be equally valued.

4. Empathetic client segmentation

Our research shows that the affinity that a prospective client feels for a wealth manager is influenced heavily by how far he or she identifies with the firm's existing client base. Traditionally, clients have been grouped by their level of assets, but new prospects - especially younger ones - may now seek proof of similarity in terms of other characteristics including:

- Source of wealth (e.g. entrepreneurship, inherited)
- Investment objectives/risk tolerance
- Level of investment experience
- Occupation
- Age and background
- Values and social interests

Firms can benefit from segmenting their clients by these criteria. This can reveal unexpected patterns in the type of client a firm attracts (and just as importantly, the type it doesn't) - and therefore where it should be focusing its acquisition efforts in the future.

This approach can also enable a firm to be more imaginative in how it talks about its existing clients to prospects. A lot of the acquisition process tends to dwell on what a firm can offer and what the prospect wants. We think a significant amount of time can be spent profitably talking about the type of client a firm has already served successfully - or is gearing up to serve in the future.

Finally, empathetic segmentation may offer new ways to group and manage client relationships. Elsewhere in this report we have discussed the value of enabling like-minded clients and prospects to network. Taking the client experience beyond pure investment management will, we believe, prove to be an important means to reinforce long-term relationships.

5. Diversified client base

While leveraging the similarities between clients, wealth managers also need to ensure their client base is not overly homogeneous. As highlighted in part one of this report, some traditional high net worth occupations are likely to be more severely hit by the credit crunch than others - notably areas such as banking and real estate.

To weather the medium term impact of this downturn in the job market, wealth management firms - particularly smaller ones - now need to audit their client base to ensure they have clients with different sources of wealth. This might even entail actively targeting clients who work in sectors that are reasonably insulated from recession such as health and law.

6. Diversified remuneration streams

The wealth managers with the most stable income in the future are most likely to be those who can accommodate a range of client charging structures - including AUM-based and time-based fees, commission and even performance-based fees.

This is partly because there is no single method of remuneration favoured by all clients and the next generation of high net worth individuals are likely to be more focused on how they are paying for wealth management than their older counterparts have been in the past.

Diversifying remuneration could help to stabilise revenues during volatile markets. This means having some form of client charging that is not AUM-based and therefore not so correlated to market movements - for example, time-based fees (although these were not popular with our survey group). The paradox, of course, is that clients want to see that their interests and those of their wealth manager are aligned: if the client's portfolio falls in value, then so should the manager's revenue.

One solution, as we made clear in this report, is performance-based element to remuneration that rewards the manager for alpha generation. This can make clear a firm's commitment to aligning its own fortunes with those of its clients, reduce correlation with markets and immediately enable a wealth manager to differentiate itself from many of its competitors.

7. A client-led - not sales-led - proposition

High net worth prospects are bewildered by the range of advisory services available to them and highly unsure how to select one firm over another. Any firm presenting itself as a specialist wealth management service needs to be able to articulate and market how its approach differs from other types of firm.

In this report, leading wealth managers have attested that their biggest selling point in the current difficult market is their focus on managing a client's current wealth plus their future wealth-generating prospects, and offering genuine in-house investment expertise rather than simply selling them products.

If we assume potential clients are going to be more selective and circumspect about whom they choose to manage their wealth in the future, then it is a focus on managing wealth - not simply gathering maximum assets - that will enable a firm to stand apart from others in the wealth management market.

Winners and losers in UK wealth management

	Winners	Losers
Technology	High technology adoption - both in back office and client-facing	Low technology adoption across business
Client segmentation	Segmented along empathetic classifications	Segmented by level of assets only
Investment expertise	Combines in-house expertise with third-party expertise where appropriate	Relies wholly on third-party product
Investment focus	Focus on absolute performance	Focus on relative performance only
Performance record	Transparent - and core to new client acquisition	Provide no data on performance of existing clients
Other services	Provide clients with networking and business opportunities	Little or no client contact beyond investment
Remuneration	Diversified with strong recurring fee focus and reduced stock market correlation	Focused on commission; highly correlated to stock markets
Strategic focus	Client-led wealth management	Sales-led asset gathering
Proposition	Offers clear benefits for wealthier prospects	Hard to differentiate from mainstream intermediaries

Appendix

i.i Breakdown of top 10% of UK taxpayers as calculated by Institute of Fiscal Studies, based on HMRC Survey of Personal Incomes 2005-06.

Breakdown of top 10% of UK taxpayers			
	Top 10-1% richest UK adults	Top 1-0.1% richest UK adults	Top 0.1% richest UK adults
Number of adults	4,215,483	421,702	46,854
Minimum before-tax income	£35,345	£99,727	£351,137
Average before-tax income	£49,960	£155,832	£780,043

Source: Institute for Fiscal Studies - Briefing Note 76

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