



IMAP Independent Thought Podcast Episode 24: The investment objectives & needs of HNW clients are different.

Will Riggall (Clime Investment Management) and Matthew Rencken (James Street Advisors) discuss:

- The challenges of running investment management within a diversified financial services business
- Typical HNW clients and their needs
- How do investment objectives and needs of HNW differ from other clients?
- HNW objectives: ESG, income, use of alts
- Managing the compromise between efficiency and high service requirements
- The interaction between the investment team and advisers

Moderated by David McDonald, CFA IMAP

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David McDonald - IMAP (00:16):

Welcome to this podcast in the IMAP independent thought series. Today I'm joined by Will Riggall and Matthew Rencken.

Will is the Chief Investment Officer of Clime Investment Management, and Matt is a director and private client advisor with James Street Advisors.

Perhaps Will would you be able to explain to us about the relationship between Clime and James Street and how that works?

Will Riggall - Clime (00:44):

Sure, and thank you for David having us on this podcast. Matt and I have done this a couple of times before. We were on a panel at the Madison conference when we were in Auckland last year.

So hopefully for those that may have been there, we don't rehash too much of what we talked about, but it's probably worthwhile me giving a bit of background around our Clime investment management, and its relationship with James Street Advisors, where Matt is the principal there.

Matt originally came to us from South Africa, as you'll probably hear within his accent, and was known to a few parties within Clime. And I guess what we wanted to do was to see if we can grow together really.

So, there's a joint venture in place between Clime and James Street Wealth, but a lot of that collaboration is based around the understanding and the view that there's a lot of value that can be extracted, and also efficiencies to be gained.

Not just for the practice, but also around the trust and transparency that you can get from managed accounts and how you use them to service not just the retail clients, but also wholesale in that high-net-worth space.

Will Riggall - Clime (02:06):

So, yes that's why Matt's here today. Other than that, he's a friend and also he's a great speaker, so I am looking forward to hearing some of his insights.

David McDonald - IMAP (02:17):

Excellent. And Matt, IMAP's actually been doing a survey of high-net-worth businesses lately and looking at different ways people serve them, what the needs are and so on.

So, would you say that high net worth or wholesale clients tend to have different needs to retail or those with smaller amounts of money, or how do you treat high net worth clients?

Matthew Rencken - James Street Wealth (02:41):

Well David, I think that for high-net-worth individuals, they tend to have a lot of similarities with an average retail client. And at the core of what we do is still advanced and actually listening to what they need and want.

I think the difference with net worth individuals is that there's probably more of a focus around working with them as opposed to helping guide them with too many decisions. So, with the high net worth individuals, they really want to be involved in each step of the process, have that transparency and have that control in those outcomes.

And I think further to that, there's probably another layer of complexity that we do tend to find. So, the tax management side of it, multiple structures, how that all comes together, how cash moves in between entities that sort of magnified in that high network space.

So, the similarities are that the clients want advice, they want reassurance, they want someone to lean on. The differences are that it's magnified and it's a little bit more complex.

So, we tend to approach it in a similar way. If a client walks in the front door we ask, are they either retail or wholesale?

We start off the same way. We capture a lot of the same information, but the path we go on from there changes a little bit depending on the complexity and the needs.

Will Riggall - Clime (04:03):

Yes, Matt, what I find really interesting about James Street Wealth goes about working with, and that's such a great point, it's working with these high net worth individuals is that the actual start of the process around how he gets an

understanding of the needs and the wants of that client is very similar to the same to the process he undertakes within the retail client. And that understanding and that discovery piece can really help him be able to add that value along the way.

So, for us, Matt and I have worked closely together on a number of clients, and working with him around where can we support his business and his client value proposition by being as efficient as possible on the service delivery of an investment solution.

And it's not just about being efficient which is valued across retail and wholesale. It's absolutely that value that a good advisor such as Matt is able to deliver through. It's the structuring.

So, working with them on the efficiencies and outcomes, maximizing the true value of advice is where the high net worth space really appears to be getting it's value from.

David McDonald - IMAP (05:19):

And Will, how do you fit the investment part within Clime as well? That's the other side of this I suppose.

I mean, they've got the advice business but there are other parts of Clime Investment, and there's the funds you run. How does that work? Is that complex?

Will Riggall - Clime (05:39):

I think we've probably started a bit complex, but more and more we are just focusing on the core IP within Clime. So, there was always advice within the group. There's client private wealth, which runs about \$500 million for wholesale high net worth clients.

And then with the purchase of Madison by Clime a couple of years ago, it really increased the focus that the group has and the understanding that we have around that advice value chain.

So on the investment piece (where a lot of our focus and growth has been in the last year or so) broadly aligned with myself joining the group, bringing the Ralton asset management business, which focuses on that SMA area is that is essentially the value that a licensee can bring to an advice group around supporting that advice group in delivering its goals.

Will Riggall - Clime (06:38):

It's whether it's the audits, or the X-Plan, or the technology environment, and investment solution as a key piece of that value chain around it.

So, we've been working pretty hard over the last year around taking the IP that we have within the direct equity piece, some of the multi-asset and strategic offerings that we've had through time and then putting them together and packaging them up. And that's through a SMA on-platform.

And then we've got IMA which is off-platform, and it's a really interesting piece and Matt actually uses both of those and it's how we specifically work with each client to understand how we can fit the pieces together.

And I guess as a last point, it's using the pieces of the puzzle, whether it's Australian Equities, international, whether it's through funds or ETFs or direct and then pulling them together to be able to deliver Matt what he needs to service their clients.

David McDonald - IMAP (07:41):

So, do you have a lot of interaction with the advisors and even the clients will from your investment side?

Will Riggall - Clime (07:49):

I think that it's a intentional strategy from Clime. We've always been very open communicators. I think that comes from John Abernethy, our chairperson who is always looking to educate, and that education piece and that core principle flows through to how we work with advisors.

So there's every six months myself, John, and other parts of the team go around the country and educate in open forums, but also to our high net worth wholesale clients. We feel that it's very important to have that direct client contact.

But we work with our advisors as and when they need us, but I guess a focus for us and where we have invested significantly in our marketing and collateral to support them, so they can take the information and when they need it for their client reviews.

Matthew Rencken - James Street Wealth (08:47):

I think, David, just to echo that a little bit is the resource that I have available to me . I have all of the skills and expertise of Will and his team and the wider Clime and team.

We are the client facing part, and we use those expertise to be able to convey and relay the way we manage investments efficiently. And I think the beauty of it is that we've got as much access to them as we need.

That gives me a really, really valuable resource to be able to provide the right service, particularly to those high net worth individuals.

So I think that along with the regular touch-point through the view that comes out, and through the road shows, it gives clients a sense of comfort on who's managing their money and how it's being looked after.

Will Riggall - Clime (09:35):

Yes, I think that's the word to use, there is that comfort and we talk about what's the difference between high net worth, and the broader need is people who access superannuation that need to feel that someone's watching their investments, and has as much focus on and care for them as they do themselves.

That level of trust allows them to then live their life. If they're in retirement, they know someone's watching for when things change, and will be reactive. And I guess that's one of the key benefits of that managed accounts environment, that we can be responsive.

We do have the discretion to move the portfolio as and when we see fit when the world's changed or a stock has changed as well.

Will Riggall - Clime (10:27):

So we think that's really important, but it's that that core level of trust is really the same across retail and wholesale.

And we feel it's on us as an investment team to have the insights available for the advisor when they need it.

So it actually helps us be less reactive so we are not being called upon it at different times, if we are actually comfortable to be more transparent, there's value for the advisor, but also allows us to be more focused on the day-to-day, which is getting the stocks and the positioning and the asset allocation right, for the end result to be where it needs to be.

David McDonald - IMAP (11:06):

It's interesting you used the word comfort, and Matt or Will what you think about this? I know one of the things we heard when we went around talking to people about high net worth clients, particularly the ultra high net worth clients was that they were often more conservative, more concerned with not losing their money.

Someone described it to me as, if you've made \$50 million and sold your business, you want to make sure it doesn't disappear. Whereas if you've got a few hundred thousand, you need to grow it.

Matthew Rencken - James Street Wealth (11:38):

Yes, I think I might just hop in on this one. I think a large part of it is that, is that they've built their wealth and one of the key differences I've seen between high net worth individuals and retail clients is that high net worth individuals have inter-generational wealth at the forefront of their mind.

They want to pass that through to their kids.

So they need comfort around two things, and that is who's managing it (and how), and they want to make sure that those assets are protected. So a large part of what we do with some of our larger clients is that wealth transfer.

And I think I would say that some of those clients are a little bit more cautious because they do want to pass that through and because they worked really hard to get to where they are.

The key thing that we give them is comfort around making sure that there's a succession and those assets are passed through. So that is one more thing that we do work quite closely with multiple family members for that reason.

David McDonald - IMAP (12:39):

The other thing of course with high net worth clients that we hear often is their interest in the more exotic alternatives, private equity, unlisted things which don't always fit into the SMAs, or managed accounts and so on.

How do you handle those sort of investments?

Matthew Rencken - James Street Wealth (12:59):

So we typically run a core / satellite portfolio approach. So we'll have our core portfolios, typically a multi-asset IMA or SMA, and then we will have satellites outside that lean more towards what a client is trying to achieve.

So we have a pretty rigorous process where our wholesale APL is researched, and vetted. And off the back of that, there's select funds that we use in different parts of the market.

Personally I like to use some funds that are private equity focused for some younger or more growth focused clients.

And then we have yield focused investments that sit outside of the traditional asset costs ,and sit more along credit lines and those sort of funds.

I think that's something that high net worth individuals do want.

Matthew Rencken - James Street Wealth (13:52):

They don't just want vanilla, they want a little bit more.

So I think we work quite closely with them to make sure that what we are recommending is in line with the core of what they want to achieve, but in order to do that efficiently and to give myself comfort, we go through quite a rigorous wholesale Approved Product List (APL) process with Madison.

So they do a lot of the research and due diligence and only then are we looking at those funds, and seeing what fits the client's needs.

Will Riggall - Clime (14:26):

That's right. The way he talks about us as a core satellite is really important. When we essentially build a lot of those simple type building blocks.

Not everyone thinks they are simple, but I guess the less exotic around the core asset classes of Australian equities, international equities perhaps some property sleeve in there as well.

But as you move towards infrastructure, perhaps some of the less liquid property and maybe a portion of the credit, there's a real opportunity there to offer something different. Offer something that the wholesale client, the high net worth client isn't usually able to access.

So when I talked about building blocks, it's around delivering the core components as building blocks, high transparency, and that's still very much valued by the high net worth, but then being able to build out those sleeves of alternatives.

Will Riggall - Clime (15:26):

So yes, Matt was right, and it's great that we talk about it. They do still have to be approved on the, there's an APL process of course, but within those areas, for us it's around partnering.

So partnering with those global players, with people, with groups who are doing really interesting things and structuring.

But what we are also doing a lot more of is actually supporting our advisors in supporting the relationship with the client.

So when we're able to access some of these more interesting assets, it's great to actually be able to work with some of the groups such as Centuria and pro invest in some of these groups that we're doing more and more work with.

To actually go and see the assets to touch and feel them.

We put about six clients on a plane out to Armidale to see one of the assets agricultural infrastructure, and to head out there and actually see them and feel them that experience, that knowledge that these are tangible things that they can be a part of is really valued.

Will Riggall - Clime (16:34):

So I guess the important part is there's always the investment piece. There's Matt's advice engagement, but then what's really important is just that unique experience as well. And that's something that the client will be focusing more and more on over the next few years.

David McDonald - IMAP (16:49):

That's an interesting one, getting the clients to actually go out, and touch and feel. That's something different.

The other topic that comes up a lot these days of course is ESG, and to some extent we seem to hear often that it's in the headlines and everyone should be doing it.

But I'm curious, obviously Will, from your point of view, how much a part of the process it is, but Matt, maybe also, how keen are the clients?

How many clients do you find come in, and say that's very important for them? Is it becoming a bigger thing?,

Or maybe Matt, you can talk from the client point of view first.

Matthew Rencken - James Street Wealth (17:26):

Yes I'll be relatively brief on that. I think David my experience is that my typical client who's sort of pre and post retiree, it's maybe not at the forefront as much as it is with younger clients.

In the past life I worked with a lot of younger doctors and they in particular loved the ESG focus and loved that conversation piece.

But with my typical clients I think they're a little bit more comfortable with having a more balanced exposure. While they do like a bit of an ESG slant, and they like a bit of practice around ESG, it's not the forefront.

They really want to get the nuts and bolts of the solutions right first and then that may be a sort of add-on. So it's probably not that consistent I suppose across our client base.

David McDonald - IMAP (18:18):

Yes. Interesting.

Will, from the investment side, is it something you sort of feel more pressure to do these days, or to consider?

Will Riggall - Clime (18:31):

Well we don't really think about it as pressure.

Our group has been focused on the integration of ESG, and all three components to that. And the way that we evaluate the investments that we do, it's a key part of our Australian equity investment process.

So the ESG rating system that we maintain internally is extremely important. We've recently elevated one of our team members, Dr. Vincent Chin who's now Head of Sustainability.

So it's an area that we are focusing on a lot, Matt's right that it's important for it to be considered. People don't want to have their investments go against the values, so you don't want a clash point, but it's a question of whether or not you build pure ESG portfolios and whether there's a big market for that.

Will Riggall - Clime (19:31):

Very much we're about not having people have their values undermined by the investments there-in. But that with that research function within our team, we're actually finding a lot of positive opportunities.

It's not so much about what you don't own at the moment, it's about accessing those really high growth opportunities.

As we look at longer term themes, we look for decarbonisation, the EV really does play into some of the opportunities we are seeing come in front of us with regards to some of the commodities commodity players that you can find within the ASX.

But also a lot of the opportunities from the amount of CAPEX and expenditure that needs to go into these changes. So yes it's changed a lot about what you can do with ESG insight. It's a lot more "growth focus" than "risk focus" at the moment, which is quite an exciting component.

Matthew Rencken - James Street Wealth (20:25):

And I think David, just further to that as well is, although we don't have a focus around ESG at the forefront with a lot of clients, there are still some clients to whom that's very important.

So to have the ability to look at funds that fit that mold, and particularly through the individually managed account type structure that that gives us the flexibility to be able to service and look after what's important to those types of clients as well.

David McDonald - IMAP (20:52):

Okay. That's interesting, so ESG is providing opportunities as well as things to avoid.

Maybe to finish off Matt, just a bit more on the client side, probably more for you. I mean you started off by explaining that high net worth clients can be a bit more complex, and have different structures and so on.

Presumably that involves a lot more work from the advice side, but does it compensate in terms of fees, and the amount of funds you getting from them? Are they more work, but more money balances it off? How do you see that compared to the retail clients?

Matthew Rencken - James Street Wealth (21:36):

Yes, I think David, one thing that was quite important for me when we started this business was making sure that we took on the right type of clients and we're a little bit particular with that.

So what that allowed us to do is have a really high level of service for those clients because we knew that ultimately the remuneration was in line with that. But one of the other things that I do believe is that I really like to engage with other professionals that are within the client sphere.

We engage with their accountant, we engage with their solicitor, we engage with the investment team.

So ultimately they do some of that heavy lifting because everybody wants that best outcome for the client. So we like to work with them quite closely. So when I say we do a lot of work around the structuring, and the asset management and the tax, I do that with their professionals so that we are as efficient as possible.

Matthew Rencken - James Street Wealth (22:28):

We're not trying to reinvent the wheel, but a key part of it is that we went through quite a strong vetting process on what type of clients we want to take on and how we can best service them, and we make sure that the remuneration is in line with what's palatable for us to go the extra mile for those clients constantly.

I think that balance was pretty important to get right in the beginning.

So we do an extra layer of work a lot of the time, but yes, we are rewarded by having the right clients that generate the right revenue for us.

David McDonald - IMAP (23:00):

Yes, so it's a team effort basically, I guess then with involvement with all their other advisors is that correct?

Matthew Rencken - James Street Wealth (23:04):

Oh, very much so

Matthew Rencken - Matthew Rencken - James Street Wealth (23:04):

James Street Wealth (23:07):

I think that's a really important thing is that a lot of advice practices that I've come across or where I started even you were a little bit dear to giving up control of anything.

And you didn't really want to lean on all those people in case there was a conflict or there was a viewpoint that was different to yours.

What I've learned in the last sort of 10 years of being in this space is that it's incredibly valuable to use the other professionals, and the other trusted people that they liaise with.

It just gives the best outcome for the client.

Will Riggall - Clime (23:43):

And I think that's the opportunity in Australia at the moment. David, there is no doubt everyone's seen the data points around the wealth that's been created over the last decades.

But a lot of them are currently really not very well advised. So, what Matt's talking about is not just being a conduit for an investment solution or stock picking, but actually the aggregator and someone who can help build that almost in a family office type sense, help them transition and manage their wealth not just to this generation, but the next.

So, it's a change of mindset as an investment professional, and certainly a bit different from running just a pure fund with managed accounts. It's very much a business type relationship.

And we feel as though we are just one of the supporting people within the ecosystem that Matt uses to deliver that value for the client.

And it's great to see that advice is valued. You know, when Matt's able to get the remuneration, and the value for the advice he's giving, I think it's certainly worthwhile for those clients.

David McDonald - IMAP (24:59):

That's great. Look, this has been a really good discussion. Thank you both.

So, it just remains for me to thank Matt Rencken and Will Riggall for their contribution to the podcast today.

And just a reminder that we have the IMAP Advice in Action conference coming up soon. We'll be in Melbourne on the 18th of July, Sydney on the 20th, and Brisbane on the 25th of July.

These conferences focus on advice businesses, how they can stay relevant and how to attract tomorrow's clients while servicing existing clients.

Registration is open now, so please go to the IMAP website to register or to find more information on speakers and topics.

The IMAP website <https://imap.asn.au> has all the details, and you can register there. Thank you.

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