

# How to attract and retain high net worth clients

Who are the high net worth individuals? How do you attract them as clients? What is distinctive about financial advice firms that successfully cater to the high net worth segment?



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# Introduction

Australia now boasts around 266,000 high net worth individuals (HNWIs), who together control around \$2 trillion in investable assets.<sup>1</sup>

A number of these high net worth investors have unmet financial advice needs. As a person's wealth grows, so does the potential complexity of their financial profile, including investments and tax arrangements. This complexity increases, in turn, the need for professional financial advice.

It follows that the opportunities for advice firms to serve the high net worth cohort are considerable.

So, what does it take for a firm to take advantage of these opportunities and attract more high net worth individuals as clients?

What does it take to retain these clients over the long term?

In what ways does a firm need to change or adapt its value proposition, its skill-set, its service offering and its culture?

These are the questions addressed by this white paper.

**In Section 1,** we ask 'who are the high net worth individuals?' We review the different criteria used to define high net worth individuals. We investigate their common characteristics. We also assess their top financial needs and the assets they invest into.

**In Section 2,** we explore the strategies that financial advice firms might use to 'attract and retain high net worth individuals as clients.' These strategies include customising and personalising services, offering diversity in investment options, focusing on family legacy, embracing the role of educator, exploring clients' appetite for ethical investing and philanthropy, and adopting next-generation digital capabilities.

**In Section 3,** we profile different firms in Australia that focus on serving, almost

exclusively, a high net worth or ultra high net worth client base.

We developed this paper following a review of relevant articles and reports, including the Capgemini World Wealth Report 2019, the Crestone/CoreData 2019 State of Wealth Report, and CoreData's High Net Worth Insights August 2019.

We also interviewed directors from firms that have succeeded in providing advice to the high net worth segment over the long term. They include Koda Capital's Andrew Rutherford, Lipman Burgon's Paul Burgon, William Buck's Adrian Frinsdorf, ShineWing Australia's Daniel Minihan, Macphillamy & Associates' Tim Macphillamy, and ANZ Private Banking's Michael Norfolk. In addition, we spoke with CoreData's Andrew Inwood.

Many thanks to each of these professionals for their time and their valuable insights.

<sup>1</sup>Capgemini, World Wealth Report 2019, page 9. <https://www.capgemini.com/news/world-wealth-report-2019/>



# 1. Who are the high net worth individuals?

There appears to be only a partial consensus among financial advice professionals as to who, exactly, the high net worth individuals are, what common character traits they share, what their financial needs may be, and what assets they are most likely to invest into.

In this section, we offer insights into the diversity of opinions around these issues.



## Defining the high net worth individual (HNWI)

Capgemini's *World Wealth Report 2019*, CoreData's *High Net Worth Insights August 2019* and a number of other sources define a high net worth individual as an investor with more than US\$1 million in liquid financial (or net investable) assets, often excluding primary residence, collectibles, consumables and consumer durables.

However, there is no universally accepted definition among Australian advice firms.

Adrian Frinsdorf, a director of William Buck in Adelaide, told Netwealth that his firm defines a high net worth client as someone with \$1 million or more in assets and an ultra high net worth client as someone with \$10 million or more.

However, ShineWing Australia partner Daniel Minihan classifies a high net

worth person as "somebody with net worth of \$10 million - \$50 million." He then defines an ultra high net worth person as "someone with net worth of \$50 million - \$500 million."

According to Andrew Rutherford, chief operating officer and partner with Koda Capital in Sydney, the definition of high net worth individuals is "pretty vague".

His firm broadly defines a high net worth individual in accordance with the Corporations Act classification of a 'wholesale' or 'sophisticated' client – i.e. someone who has \$2.5 million of assets or income over \$250,000 per annum. He acknowledges, however, that this is less than satisfactory.

"It's very easy to use the terms 'high net worth', 'wholesale' and 'sophisticated' interchangeably," Mr Rutherford says.



**There's a behavioural change once you have US\$1 million (outside your primary residence)**

**– Andrew Inwood,  
CoreData**





**It's very easy to use the terms 'high net worth', 'wholesale' and 'sophisticated' interchangeably.**

**- Andrew Rutherford,  
Koda Capital**

"The reality is, they're quite different.

"We have some clients with 10, 20 or 30 million dollars who are most definitely high net worth individuals, and most definitely legally wholesale, but also quite unsophisticated. You need to hold their hands and take them through baby steps in the advice process.

"Then you have other clients who might only have three, four or five million dollars, who are still wholesale and high net worth, but are very, very sophisticated."

Perhaps the only common agreement among firms is that high net worth clients have investable assets at least in the millions rather hundreds of thousands of dollars.

Research firm CoreData adheres to the most common definition of high net worth individuals as being those with investable assets of more than US\$1 million (excluding primary residence).

CoreData founder and principal, Andrew Inwood, told Netwealth that this choice has to do with the behavioural change that tends to occur at the US\$1 million asset mark.

"There's a behavioural change once you have US\$1 million (outside your primary residence)," Mr Inwood said.

"There's another behavioural change at around US\$3 million. Another one at around US\$7 million. And another one at around US\$10 million.

"Partly that's to do with future focus. Partly it's to do with risk appetite. Partly it's to do with what we call cossetting assets. If you have a million dollars and you've only had it relatively recently, your risk appetite really falls, because you tend to be working towards preserving the asset. As the numbers get higher, you begin making longer-range decisions, potentially embracing different types of risk."

## Characteristics of high net worth individuals

It is also difficult to generalise about what a typical high net worth individual is like in terms of their personality or their demographic, Capital or geographic profile.

Most wealth managers would likely attest that their high net worth clients are diverse with regard to their personal and social characteristics. HNWI's come in a range of ages, sexes, ethnicities and lifestyles.

According to William Buck's Adrian Frinsdorf, for example, high net worth individuals mostly behave like other people, but simply "have bigger bank balances."

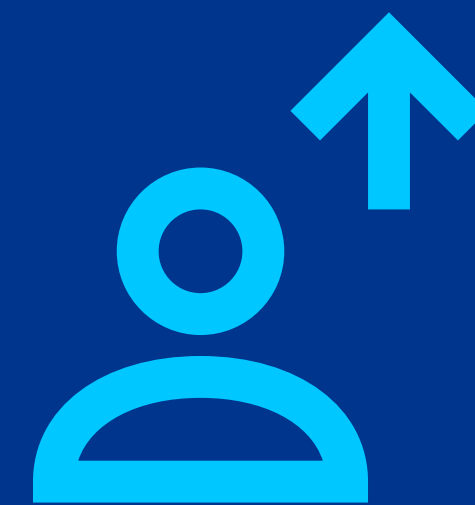
"They are very much like the average Australian, but probably are more likely to have bigger houses, better cars and holiday more," Mr Frinsdorf says.

"Some are really outgoing. Some are quiet. Some love to exercise. Some love to travel. Some love going out to restaurants."

"Almost all are down-to-earth and very polite.

"The high net worth clients we deal with are regular mums and dads. They're out there in the community. Yes, they have more zeros in their bank balance. But they're no different to every parent I've met who wants to see their children do well and wants to make sure they behave in the right manner. They want to make sure they're covered for their retirement."

Koda Capital's Andrew Rutherford agrees that high net worth people are as different to each other "as any other person in the street."



**High net worth individuals mostly behave like other people, but simply "have bigger bank balances.**

**– Adrian Frinsdorf,  
William Buck**

There are, however, some common traits.

“You’d have to say that, on average, they are probably more financially savvy and, dare I say, more intellectually capable,” Mr Rutherford says.

“They do tend to have a higher level of intellectual capability, typically, if they have a stack of money. But it depends on how their money came to them.

“We have people who inherited money – basically Mum and Dad or Grandma and Grandpa have made a pot of money and the kids have inherited it – and they haven’t shown any great acumen in building wealth. It’s been handed to them. They typically exhibit more variability in terms of both level of interest and ability.

“Then you have other people who are executives – senior people

inside large corporations – who are earning really good money. They’re typically fairly capable.

“Then you have the others who have built their own businesses and have sold them and are making good dividends. Again, they have shown commercial acumen, intellectual capability and entrepreneurialism.”

Lipman Burgon managing director Paul Burgon suggests that many high net worth individuals require the services of a financial adviser following a dramatic increase in their wealth over a relatively short period of time.

“If I look across our client base, the average age is about 60,” Mr Burgon told Netwealth.

“We often receive referrals and enquiries at a time in our clients’ lives when they’ve either been working as an executive in a firm



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**– Adrian Frinsdorf**

and have built up significant wealth through executive options, or they’ve sold a business, or they’ve been in a profession, perhaps as a lawyer or medical specialist. They’ve often got to a time when they’re starting to manage quite significant wealth and are looking for a professional adviser who is experienced in managing that level of wealth.

“Sometimes these people might have been running their own portfolios, when it’s been a couple of million dollars. But suddenly they’re looking at their future retirement, or they may have had an inheritance, and they’re now custodians of significant capital. This leads to a realisation that they require professional advice outside of what a traditional stockbroker, for example, would provide them.”



## The wealth needs of high net worth individuals

The financial motivations of most high net worth individuals include the desire to maintain their wealth, grow their wealth and eventually pass their wealth onto their heirs (or, in some cases, their favourite philanthropic causes).

The Crestone/CoreData 2019 State of Wealth Report contends that high net worth and ultra high net worth individuals in Australia tend to be both conservative and unsophisticated in their approaches to finance and investing, concentrating their wealth in just three asset classes – cash, Australian equities and residential property.

The report suggests that this lack of diversification poses risks to their wealth and that they would benefit from support in portfolio management, including “developing optimal investment strategies, managing the efficient transfer of wealth to younger generations,

and diversifying into non-traditional investments and asset classes.”<sup>2</sup>

It found that most of Australia’s high net worth and ultra high net worth individuals (79.7%) consider themselves to be ‘cautious’ investors, prepared to tolerate only a low-to-moderate level of risk.

A key knowledge gap appears to exist among Australia’s HNW/UHNW individuals in terms of the different types of investing available to them. The Crestone/CoreData research identified “barriers to investing in international investments, alternative and/or emerging investments and socially responsible investments, including gaps in investors’ knowledge about these options, and the perceived high costs associated with them.”<sup>3</sup>

Wealth management firms, according to the report, should focus on “areas where wealthy individuals are already



**In particular, high net worth individuals have said they want personalised financial advice offerings that focus on value creation.**

**– Capgemini’s World Wealth Report 2019**

<sup>2,3</sup> Crestone Wealth Management and CoreData Research, 2019 State of Wealth Report. <https://www.crestone.com.au/2019-state-of-wealth-report/>.



# 79.7%

of high net worth and ultra high net worth individuals consider themselves to be 'cautious' investors



# 70.6%

consider saving for retirement to be one of the top three reasons to invest

indicating a demand for help, including developing investment strategies, and the efficient transfer of wealth to younger generations.”<sup>4</sup>

The report also found that the focus of the majority was on saving for retirement, cited by most respondents (70.6%) as one of the top three reasons to invest.

While 38.9% of wealthy individuals are 'advised' and have an ongoing relationship with a financial adviser, many exhibit 'coach-seeker' behaviours – i.e. “They like to feel in control and to be reasonably involved in managing their wealth, but they also like to seek some form of advice for information and higher-level ideas.”<sup>5</sup>

More than a third of respondents (35.1%) also indicated they would begin using an adviser if only they could find one that they could trust.

Capgemini's World Wealth Report 2019 suggests that, while HNWIs' satisfaction with their financial advice firms has

remained strong in recent years, firms need to continue enhancing the client experience to keep up with rising expectations. In particular, high net worth individuals have said they want personalised financial advice offerings that focus on value creation.<sup>6</sup>

Macphillamy & Associates founder and director Tim Macphillamy suggests that high net worth individuals and families have a need for comprehensive investment advisory services, comprising investment and non-investment activities.

“Non-investment activities include advisory, tax efficiency, cash flow planning, succession and estate planning services,” Mr Macphillamy says.

“We also liaise closely with clients' accountants and lawyers to ensure we are all 'on the same page'.

“The style of client we have needs more than just investment advice. We strive to be the proactive confidante for each of our clients.”

<sup>4,5</sup>Crestone Wealth Management and CoreData Research, 2019 State of Wealth Report. <https://www.crestone.com.au/2019-state-of-wealth-report/>.

<sup>6</sup>Capgemini, World Wealth Report 2019. <https://www.capgemini.com/news/world-wealth-report-2019/>.

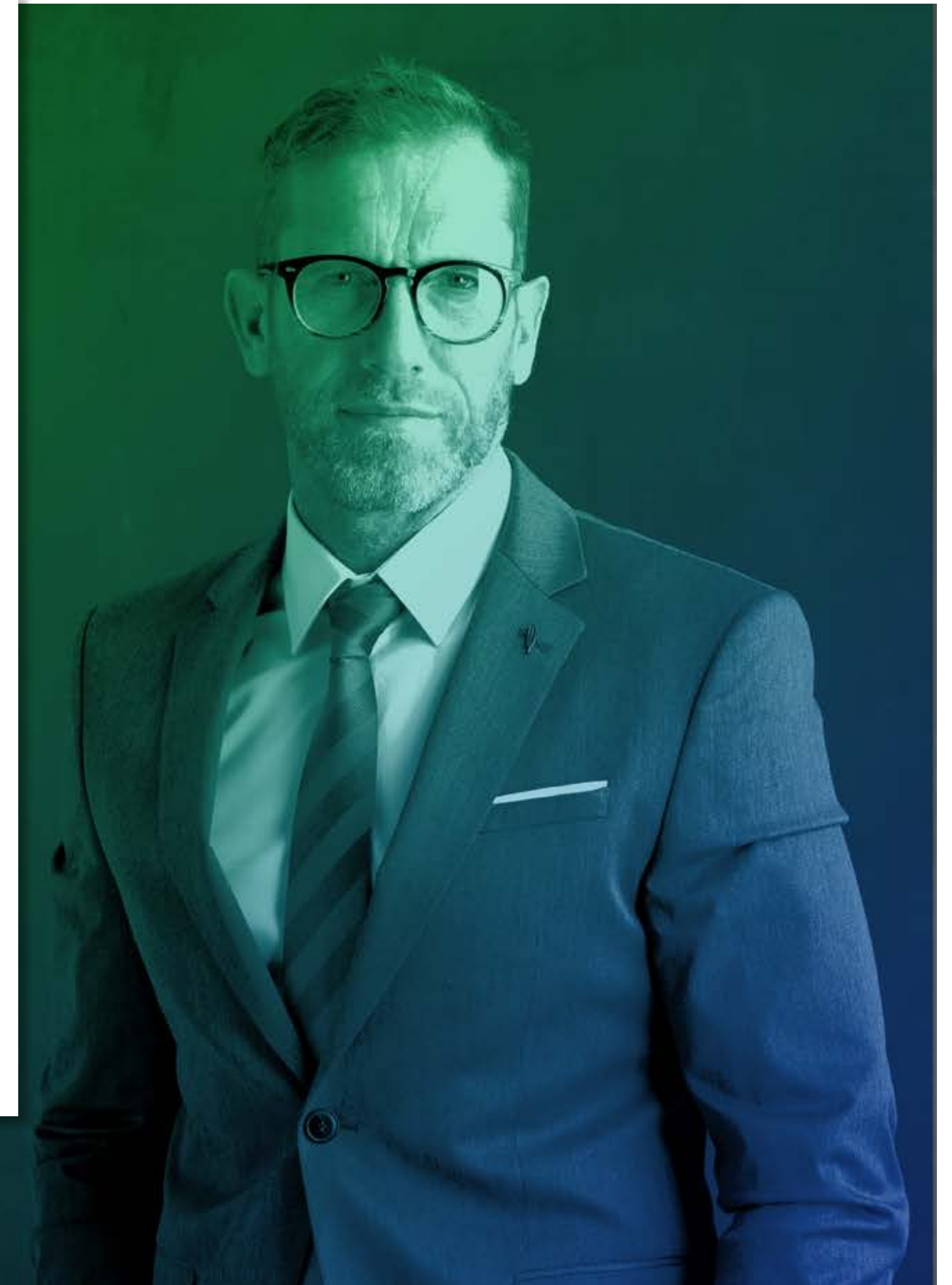


## 2. Attracting and retaining high net worth individuals as clients

How can financial advice firms successfully cater to high net worth clients and their needs?

After speaking with a number of successful advice firms, the following themes and strategies became apparent:

- Customise and personalise services
- Offer diversity in investment options
- Focus on family legacy
- Embrace the role of educator
- Explore high net worth clients' appetite for ethical (impact) investing
- Adopt next-generation digital capabilities



# Customise and personalise services

CapGemini’s World Wealth Report 2019 reveals a correlation between advice firms’ personal connection with high net worth clients and strong financial performance. In fact, the firms that ranked in the top 25% for strong personal connection over two years (‘Connection Leaders’) outperformed firms in the bottom 25% (‘Connection Laggards’) in a comparative analysis of several financial measures.<sup>7</sup>

As a natural consequence of their relative wealth, high net worth clients tend to require more frequent contact than others. Their investment needs may be more complex. They may also demand greater value from their financial advice firm.

Advice firms and their individual advisers therefore need to offer more than their core suite of services to such clients. Additional services might include customised portfolio

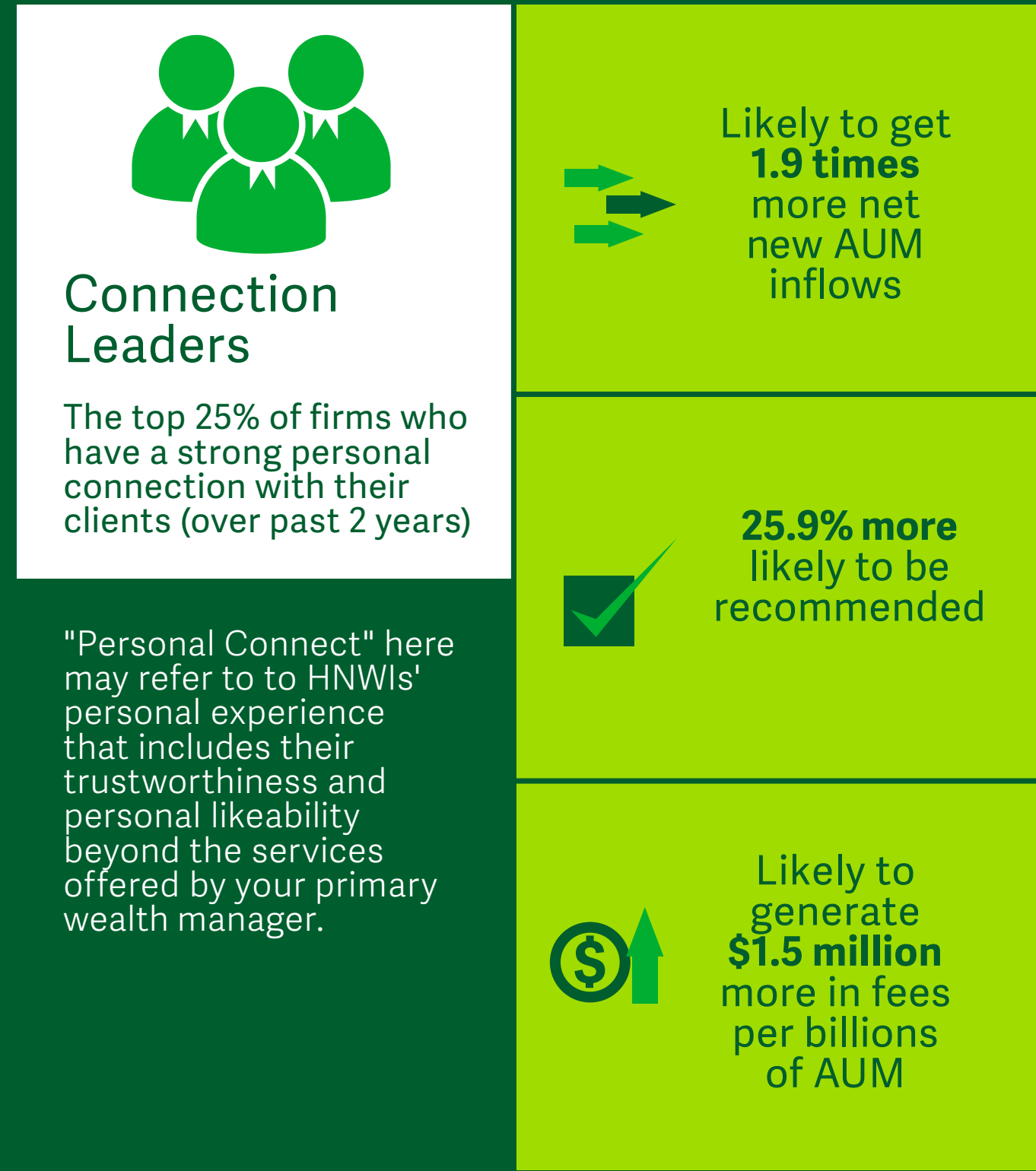
development, business advice, cash management, credit/lending advice, estate planning, tax planning and insurance.

To succeed, the firm should be seen (in the eyes of the high net worth client) almost as an all-purpose financial hub that offers personalised solutions to specific challenges. The financial adviser, in this case, would be the first and (in many cases) only point of contact in relation to any financial issue a client may encounter.

In Capgemini’s survey of HNWIs, ‘service quality’ was, in fact, shown to be the number-one criterion for selecting a financial advice firm.<sup>9</sup>

Service quality and ‘connection leadership’ may also include offering clients the ability to choose face-to-face connection or digital connection with the firm at any point in time, as it suits them.

## Connection leaders outperform laggards



"Personal Connect" here may refer to to HNWIs' personal experience that includes their trustworthiness and personal likeability beyond the services offered by your primary wealth manager.

Source: Capgemini Financial Services Analysis, 2019; Capgemini Global HNW Insights Survery, 2019

<sup>7,8,9</sup>Capgemini, World Wealth Report 2019. <https://www.capgemini.com/news/world-wealth-report-2019/>.





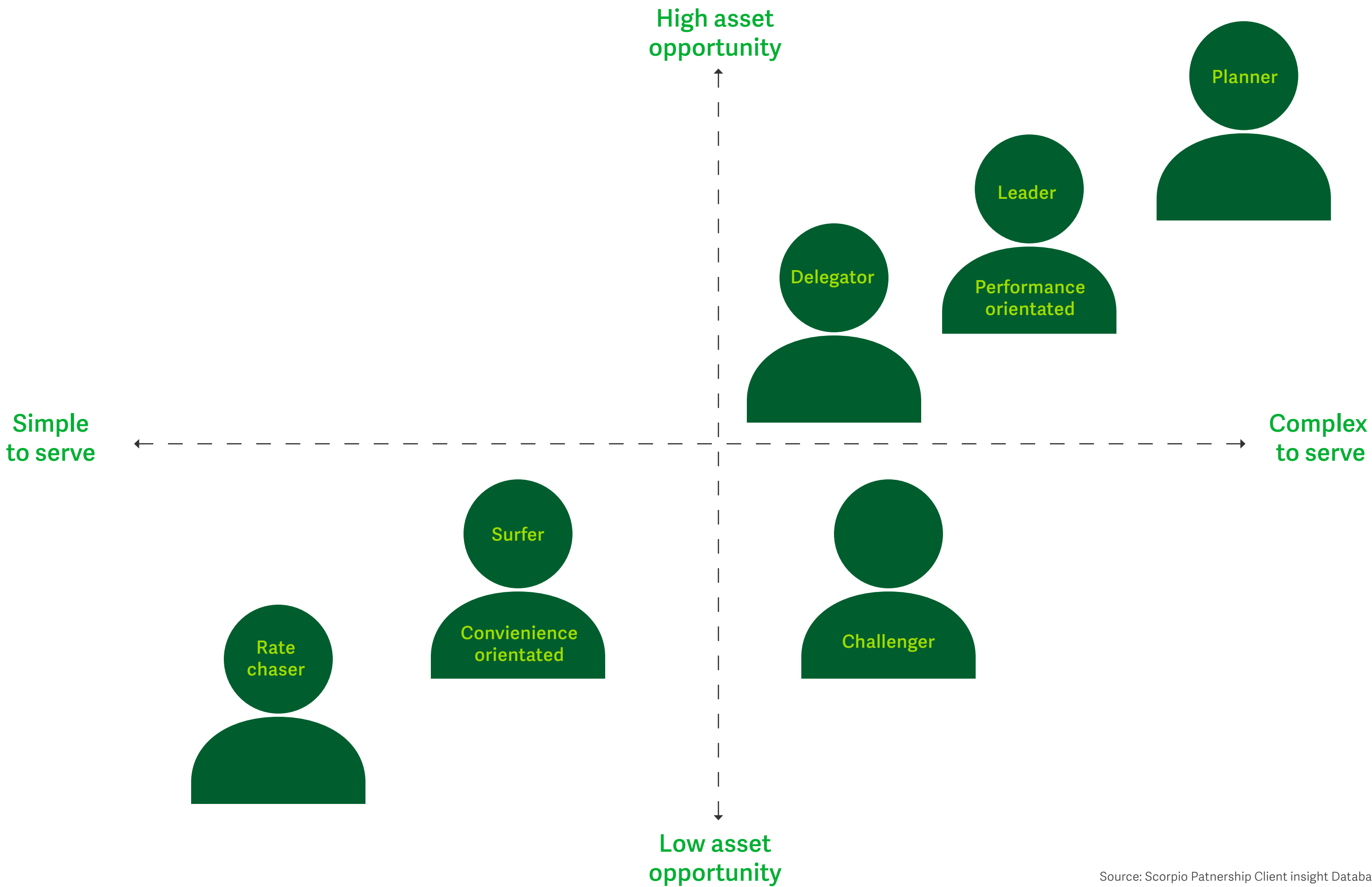
An initial step that advice firms can take to personalise their service offering is to undertake more sophisticated market segmentation research. As Scorpio Partnership’s Hubert Brown suggests, high net worth individuals are not attracted to advice firms that have a ‘one size fits all’ approach.

“Whilst the industry has long considered basic client segmentation as a foundation for marketing initiatives, it is only recently that we have begun witnessing a more impactful shift – firms are now moving away from the use of simple labels such as gender, age, geography and wealth level,” Mr Brown writes.

“They are beginning to identify personalities amongst these larger segments. Client profiling is undergoing a serious transformation as specific behavioural patterns such as knowledge of investments, attitude towards products, or responses to their wealth management experiences are now increasingly taken into consideration.”<sup>10</sup>

Scorpio Partnership designed six client profiles with distinct behaviours based on their wealth needs and expectations from wealth managers, as indicated here:

Segmenting clients through a behavioral lens



Source: Scorpio Partnership Client insight Database

<sup>10</sup>Brown, Hubert, 'The rich are different from you and me'. Scorpio Partnership. <http://www.scorpiopartnership.com/opinion/blog/rich-different-you-me/>.

Michael Norfolk, ANZ's managing director of Private Banking and Advice, says the degree of customisation offered to his bank's clients depends on their specific needs and preferences.

"We're very much driven by our clients," Mr Norfolk told Netwealth.

"Depending on what they want to do, we can be either as 'cookie-cutter' or as bespoke as they would like.

"In the ultra high net worth and family office space, we have in excess of 30% market share. And they demand a great deal of tailoring. To keep those types of people, we need to be able to do that.

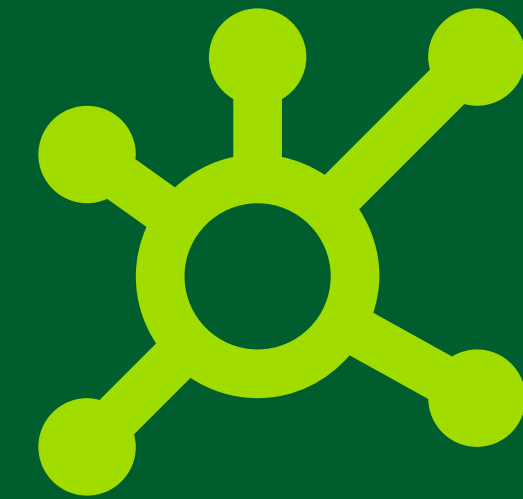
"At the same time, some of our clients say they have no real interest in financial machinations, or don't have a view about what they want to see or what they don't want to see. In those sorts of cases, we don't try to over-complicate it for them.

"We've spent a lot of time figuring out what the client is looking for, and then engineering our processes, and have sought to be able to deliver that as simply as we can – because financial services is complicated enough."



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**To succeed, the firm should be seen (in the eyes of the high net worth client) almost as an all-purpose financial hub that offers personalised solutions to specific challenges.**

**- Capgemini World  
Wealth Report 2019**



## Offer diversity in investment options

Due to their additional wealth, and the investment opportunities this brings, the assets that advised high net worth individuals invest in naturally tend to be more diverse than those of most retail clients.

As ANZ Private's Michael Norfolk told us, his high net worth clients hold a huge range of assets, from art collections to gold bullion and everything in between.

"Most client portfolios tend to be naturally skewed toward domestic property and shares, which is the case for most Australians," Mr Norfolk said.

"What tends to differentiate high net worth clients to retail clients is their ability to invest in assets, whether it be due to minimum parcel sizes or client sophistication, which aren't readily accessible to the average Australian. Direct bonds and IM funds are two good examples of these asset types.

Many of our larger clients also invest in private equity.

"Having often made their wealth from businesses in specific industries, they tend to understand specific sectors well and gravitate towards them, seeking potential returns that they have become accustomed to during their business careers.

"As the low rate environment has become the norm, many clients have sought additional yield from their defensive assets. Our portfolios targeted at generating a yield above the current term deposit rate, whilst maintaining a better liquidity profile, have been extremely sought-after during this period."

Koda Capital's Andrew Rutherford says that, while high net worth clients invest in listed and unlisted assets just like other investors, they typically have a



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– Michael Norfolk

higher allocation to offshore assets and private market assets. This is because they can afford, and can justify, the additional administration and (tax) accounting costs involved in offshore investments, and can tolerate the lack of liquidity and longer time horizons of private market assets.

"This trade-off between return and liquidity is an important aspect," Mr Rutherford says.

"Listed assets trade at, say, 12 times earnings – suggesting a return of around 8%. A private market asset will typically trade at five times earnings – suggesting a return of 20%. So, you are giving up a significant amount of return in order to have the ability to sell an asset on the market and get your money back in three days.

"Of course, listed securities are much more transparent because of the

continuous disclosure obligations that listed companies face, so you need to have really good advice and a really good manager if you are going to invest in private markets – but even if you pay your adviser 1% and the manager 2%, you are still doing pretty well if the returns between private markets and public listed markets are so divergent.

“That’s why high net worth clients can invest more like endowment funds, which invest heavily in private markets through hedge funds, specialist private equity funds and direct investments etc more than a retail client can.”

**William Buck’s Adrian Frinsdorf highlights three assets that his high net worth clients can access, but which require more research than retail products:**

- Direct bonds. “Direct bonds have a minimum entry of \$500,000, although there is a growing number of providers enabling access at lower amounts. The lower access needs

to be assessed on liquidity as bonds with minimums under \$500,000 (with exception of government bonds and some others) are artificial.”

- Some IM funds, particularly wholesale property syndicates. “As a general rule, we avoid all retail property syndicates, but we have an internal process to assess wholesale syndicates and some of these are great investments.”
- Certain placements from ASX-listed companies that are for wholesale investors only.

“The warning I would put here is that promoters tend to see a pool of money for clients that can access wholesale products,” Mr Frinsdorf says.

“There is much less research in this area and many wholesale products are overpriced and produce poor performance. Promoters often promote them as better because they are wholesale, but that is often not the case.”



**You need in-house investment expertise to complete the due diligence on these (alternative) investments to ensure they are matched to a client’s level of risk appetite and sophistication.**

**– Paul Burgon,  
Lipman Burgon**

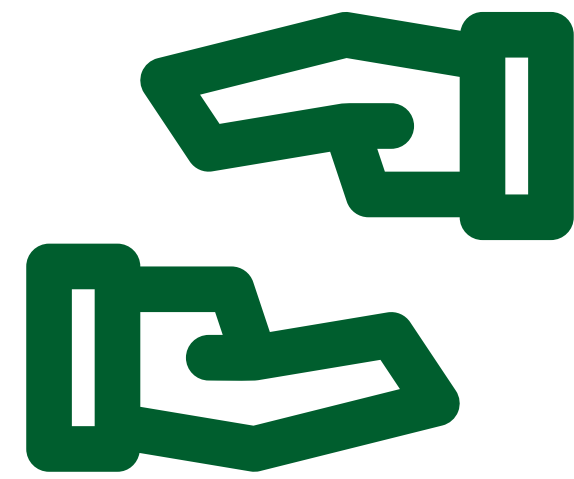


Lipman Burgon's Paul Burgon says an increasing number of investments that were previously only available to the institutional market are now being made available to high net worth investors via information memorandums.

"You need in-house investment expertise to complete the due diligence on these investments to ensure they are matched to a client's level of risk appetite and sophistication," Mr Burgon says.

"We have been particularly active in the past two years in private markets, which covers both private equity and private debt.

"Within private equity it is important to construct a portfolio of diversified vintages that covers the spectrum from venture capital to buy-out in both domestic and international markets. Within private debt, there have been domestic opportunities created through regulatory pressure on the major banks to reduce their exposure to commercial



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partnership  
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Hong Kong) based  
families.  
– Daniel Minihan,  
ShineWing**

real estate financing. Our view is that the risk versus returns in this sector are currently asymmetric in favour of the investor, as the non-bank lending sector in Australia is still relatively immature.

"International private credit also remains attractive, as the amount of private capital available for investment has increased enormously over the last ten years. In the US, it is not uncommon to be a \$1.0 billion enterprise-value private business that has been purely funded from private markets.

"We want to get access to these investment opportunities for our high net worth clients where it is sensible from a portfolio construction perspective to have a percentage of their portfolio in less liquid assets to capture the risk premia."

ShineWing Australia's Daniel Minihan works with his ultra high net worth clients to access a range of investment assets, most of which would not be available to retail clients.

"From a UHNWI perspective, we generally see clients investing into alternative asset classes such as private equity, infrastructure, private credit and hedge funds," Mr Minihan says.

"In addition, they may also invest into syndicated property funds alongside other families and often will embark on large single-asset property transactions such as office buildings, commercial properties and developments where they are the sole owner or have majority control.

"There is also a larger appetite for offshore investments than we would otherwise see from retail investors. Increasingly, we see families look to Asia for opportunities, usually via locally-domiciled specialists or in partnership with Asian (mainly Hong Kong) based families. There is also a prevalence of holding foreign currency such as US dollars, euros or Swiss francs, both as a long-term strategic investment and as a diversification/safe-haven fall-back in times of volatility."

## Focus on family legacy

Most HNWIs are conscious of the need to maintain their wealth, grow their wealth and eventually pass their wealth onto the next generation. Financial advisers, therefore, have an opportunity to support them through the inheritance planning process.

As AssetMark's Matt Matrisian suggests, "given their relatively high net worth, wealthy investors are not only concerned about establishing an inheritance plan – they also want to make sure their heirs receive the resources to effectively manage the estate."<sup>11</sup>

The opportunities for financial advice firms to assist HNWIs in securing their family legacy have never been greater. Earlier this year, a Russell Investments article explained that wealthy people in Australia and throughout the world are beginning to embark on a 'Great Wealth Transfer'.

The article notes that "worldwide demographic trends are putting in place the foundations for the largest intergenerational wealth transfer in history over the next 50 years. In Australia alone, it is expected that we will see around \$3.5 trillion change hands over the next 20 years, growing at 7% per year ... [which will] bring about a total overhaul to the way that current financial advice practices work."<sup>12</sup>

Russell Investments suggests two main contributory factors for this massive shift in funds.

First, baby boomers in Australia (those born between 1946 and 1964) have, on average, experienced a huge increase in their net worth over the past 25 years. This has been due mainly to consistent increases in incomes, property prices and equity markets.



**\$3.5  
trillion**

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Second, baby boomers' life expectancy has increased, thanks to medical advancements, greater awareness of healthy living practices and better assisted living facilities. While this means the elderly are living longer and have held onto their assets for a longer period than previous generations, the percentage of the population aged over 75 is set to increase dramatically in the coming years. Consequently, the number of deaths of older people over the next few decades will increase exponentially.

Lipman Burgon's Paul Burgon notes that the orderly transfer of wealth appears to be an increasing priority for many ageing high net worth clients.

"We certainly do a lot of work around asset protection, wealth transfer, and intergenerational wealth planning," Mr Burgon says.

<sup>11</sup>Matrisian, Matt, 'How to attract and retain high net worth clients'. <https://www.wealthmanagement.com/high-net-worth/how-attract-and-retain-high-net-worth-clients>.

<sup>12</sup>Russell Investments, 'Intergenerational wealth: An introduction Part 1'. <https://russellinvestments.com/au/blog/intergenerational-wealth-an-introduction-part-1>.



“Among most clients’ biggest concerns is the issue of how to effectively pass wealth to future generations, making sure the values are maintained in terms of how that wealth has been created and cared for.”

CoreData’s Andrew Inwood suggests the data supports the emergence of immense opportunities for advisers in this area.

“The youngest of the baby boomers are now 55. They’re just entering into that decade in which they’re going to retire,” Mr Inwood says.

“So, the greatest transfer of wealth that has ever been seen in Australia is now at work. And the advice and assistance required for that is just extraordinary. The market opportunity is significant. How we approach it, how we view it, is something that has yet to be tested by the providers.

“I’m optimistic, because the wealth transfer is going to need people who

know what they are doing. You’re going to need some real skills to make the best of this.

“People’s biggest fears with the wealth transfer is the unintended distribution of money – that the money ends up with someone they didn’t like, or that they pay too much tax.”

In long-standing firm-client relationships, intergenerational wealth transfer may even involve a transition of advisers as well, as ShineWing Australia’s Daniel Minihan reveals.

“I’m now looking after a number of clients where I was transitioned in as a new, younger adviser,” Mr Minihan says.

“As the older adviser and the family patriarch both went into the background and their children came in, I came in at the same time as well. It’s a collaborative approach that we undertake with some families, depending on demographics, suitability, and the fit with the new advisers and the children.”



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**– Paul Burgon**

## Embrace the role of educator

An important aspect of intergenerational wealth transfer is facilitating the financial education of both high net worth clients and their heirs.

William Buck's Adrian Frinsdorf enjoys this role.

"We provide education in a number of ways – including direct education to Mum and Dad. And also running family meetings," Mr Frinsdorf says.

"Part of giving an early inheritance is encouraging the children to live off the income of the assets. And giving the children some money and building that up over time, which is very much what the parents have learnt to do.

"The best way to educate is less about theory and more about practical application.

"I have a good example of a family who

has quite a lot of money. Every year they've given \$100k-\$200k to their children, and one of our younger advisers looks after the children and educates them, so they're learning about how trusts work, how distributions work, and they're living off the income now.

"We're doing a lot of that with many families. It's better than just buying them an asset, which doesn't teach anyone anything.

"We have clients who put money in trusts, have their children manage these trusts themselves, look after the investments, and go to the bank to borrow money etc. They're educating themselves financially."

Another opportunity, in terms of taking on an educative role, arises with the need to help high net worth clients better understand risk and volatility.



**The best way to educate is less about theory and more about practical application.**  
– Adrian Frinsdorf

Volatility in investment markets is now considered the 'new norm'. High net worth clients, therefore, increasingly look to their financial advisers to assist them in managing ongoing risk and building portfolio resilience in a sophisticated manner.

In 2017, Scorpio Partnership and FactSet surveyed more than 1,000 HNW/UHNW individuals around the world to identify the sufficiency, or otherwise, of existing frameworks in the advisory relationship for understanding and measuring risk.

The research showed that "market volatility, a lack of process capacity of wealth managers, and a lack of understanding of risk processes and investment knowledge by investors pose serious challenges to wealth managers and HNWI's alike. However, they also present a major opportunity for

<sup>12</sup><http://www.scorpiopartnership.com/opinion/blog/risk-resilience-wealth-volatility/>

advisors and clients to tackle these challenges together and develop more collaborative relationships.”<sup>13</sup>

Interestingly, over a third of the HNWIs surveyed could not correctly identify a risky portfolio. Many were also unable to define basic investment terms, including ‘volatility’. A clear opportunity therefore exists for advisers to help high net worth clients to bridge this knowledge gap. Younger HNWIs (under 35) were especially vulnerable in this regard and are open to education from their financial adviser.

Advisers can help HNW clients to understand the need for detailed risk profiling. Through such an understanding, HNW clients can work with their adviser to develop greater confidence in their long-term investment strategies.

There is also significant potential for advisers to introduce digital tools that can support this process.



**Another opportunity, in terms of taking on an educative role, arises with the need to help high net worth clients better understand risk and volatility.**



**Market volatility, a lack of process capacity of wealth managers, and a lack of understanding of risk processes and investment knowledge by investors pose serious challenges to wealth managers and HNWIs alike.**

**– FactSet and Scorpio Partnership, The Resilience Agenda: The Wealth Manager’s Guide to the New Era of Volatility.**

<sup>13</sup>FactSet and Scorpio Partnership, The Resilience Agenda: The Wealth Manager’s Guide to the New Era of Volatility.



## Explore the appetite for ethical investing and philanthropy

Ethical investing (also known as impact investing, socially responsible investing and sustainable investing) is the practice of using capital to make a positive contribution to society. This may be based on the consideration of issues relating to environmental impact, health effects, social change or political activism.

The trend of wealthy individuals wanting to create a positive social legacy appears to have been growing in recent years. Ethical investing is a key component of this process.

The Legg Mason Global Investment Survey 2018 involved a comprehensive worldwide endeavour to track investment and behaviour trends over the previous year. Almost half (49%) of the investors surveyed said they now choose funds or companies to invest in according to environmental, social and governance (ESG) considerations. More than half (54%) said they avoided investing in companies with controversial track records, while a massive 89% said that fund managers should 'police' companies to ensure they act responsibly.<sup>14</sup>

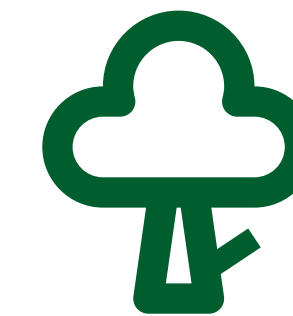
As Scorpio Partnership's Denisa Pritzova affirms, HNWLs increasingly seek more formal support to help align financial objectives with personal values.

"Indeed, client demand is encouraging industry players to think more innovatively in this area," Ms Pritzova writes.

"However, it is also taking advisors and wealth managers into uncharted territory as the debate around how impact funds should be deployed, and their successes measured, continues."<sup>15</sup>

She suggests that financial advisers need to engage in conversations with their HNWL clients to determine their priorities in terms of impact vs return, and to map ethical investment opportunities alongside return/risk objectives to ensure expectations are realistic.

Financial advisers can also play an important role in helping high net worth clients with their direct philanthropic activities.



# 49%

of investors choose funds according to environmental, social and governance considerations



# 9 out of 10

advisers are interested in being able to provide philanthropic advice to their clients

<sup>14</sup>Legg Mason, Legg Mason Global Investment Survey 2018. <https://www.leggmason.com/en-au/campaigns/global-investment-survey-2018.html#>.

<sup>15</sup>Pritzova, Denisa, 'Creating impact through investment'. Scorpio Partnership. <http://www.scorpiopartnership.com/opinion/blog/creating-impact-investment/>.

Sarah Davies, CEO of Philanthropy Australia, has written that financial advisers play a critical role as a conduit for high net worth clients to consider and realise their philanthropic ambitions.

“Increasingly, those ambitions amount to more than the most commonly reported philanthropic mechanisms advisers fall back upon: bequests or trusts,” Ms Davies contends.

“While we’re seeing growing interest in the creation of PAFs [private ancillary funds] and donor-advised sub-funds as tax-effective structures for giving, the number one barrier to establishing a new fund is a perceived need for high levels of knowledge or advice. Philanthropists who participated in the Giving Australia 2016 research spoke directly of the need for more skilled advisers.”<sup>16</sup>

It’s clear that broaching the subject of philanthropy with high net worth clients – and supporting them in the implementation of strategies that can help them build a meaningful philanthropic legacy – can contribute to improving the quality and depth of the adviser-client relationship.



**The trend of wealthy individuals wanting to create a positive social legacy appears to have been growing in recent years. Ethical investing is a key component of this process.**



**Financial advisers need to engage in conversations with their HNW clients to determine their priorities in terms of impact vs return, and to map ethical investment opportunities alongside return/risk objectives to ensure expectations are realistic.**

<sup>16</sup>Davies, Sarah, ‘De-mystifying philanthropy’, Moneyandlife.com.au. The Financial Planning Association of Australia. <https://www.moneyandlife.com.au/professionals/grow/de-mystifying-philanthropy/>.

## Adopt next-generation digital capabilities

CapGemini's World Wealth Report 2019 suggests that next-generation technological capabilities can empower both wealth managers and clients to navigate uncertain times.

The wealth managers interviewed for the report saw disruptive challenges ahead, with "increased innovation through analytics, the entry of BigTechs, and pressure relating to fee structures as forces that will drive the industry in the coming years."<sup>17</sup>

The report argues that, to succeed in the face of such challenges, financial advice firms should enable their wealth managers through digital tools and financial planning resources. Such tools and resources can serve to enhance client relationships.

The adoption and usage of sophisticated technological tools, including artificial intelligence (AI),



**AI has the potential to reduce admin workload so advisers can increase the effort they put into improving client service experience.**

**- Andrew Rutherford**

enables financial advisers to reduce their administrative workload and therefore increase the time and effort they can put into improving the client service experience.

According to the report, "the ever-changing environment will require a shift to sustainable and agile business models, with robust change management and privacy processes."<sup>18</sup>

Some advisers are sceptical as to the immediate positive impact that next-generation technology presents in the high net worth space.

Koda Capital's Andrew Rutherford doesn't believe that innovations such as artificial intelligence will have an enormous impact in the short to medium term future.

"I don't think next-gen technology, such as AI, is tremendously

important in terms of this segment at the moment," Mr Rutherford says.

"AI is basically about crunching enormous amounts of data, working out where the bell curve is, and making sure you're somewhere between the bottom ten percentile and the top ten percentile – somewhere in the middle. It's really around a normalisation process.

"Our clients are already in the top five per cent part of the distribution in terms of wealth. They don't want to be in the middle, which is where AI is going to take them."

However, others such as ANZ Private Banking's Michael Norfolk are open to the possibilities sooner rather than later.

<sup>17</sup>Capgemini, World Wealth Report 2019. <https://www.capgemini.com/news/world-wealth-report-2019/>.

<sup>18</sup>Capgemini, World Wealth Report 2019. <https://www.capgemini.com/news/world-wealth-report-2019/>.



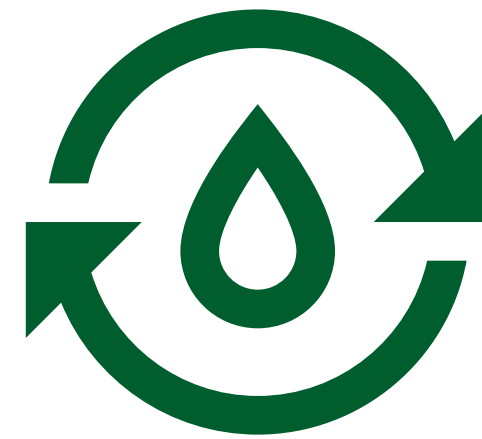
“There are opportunities with the likes of artificial intelligence,” Mr Norfolk says.

“We know that’s going to enter into the fund space in a big way. We know there’s going to be disruption in terms of asset allocation and how that’s modelled.

“And, look, we’re excited about that. Because I think that will give us an opportunity to service clients better.

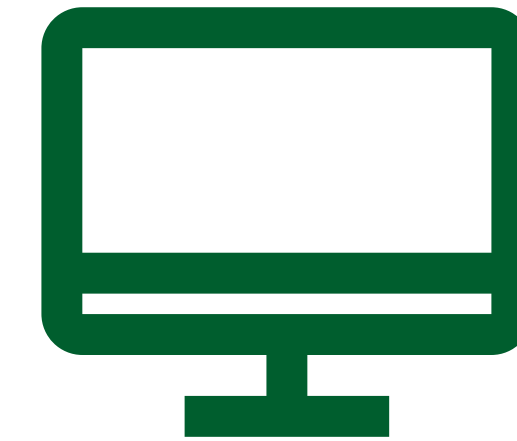
“Even at a very basic level, now, we’re using technology to more easily see how clients are accessing their information. We can see how much time they’re actually spending looking at their investments, or how they navigate, or whether they don’t look at them at all.

“It’s very early days, but we’re quite excited by it, because we are a business that feels quite passionate about being guided by what people want and solving their needs.”



**The ever-changing environment will require a shift to sustainable and agile business models, with robust change management and privacy processes.**

**- CapGemini’s World Wealth Report 2019**



**Our clients are already in the top five per cent part of the distribution in terms of wealth. They don’t want to be in the middle, which is where AI is going to take them.**

**- Andrew Rutherford**

# Offer fee transparency and value

There has been a distinctive trend in recent years towards charging high net worth clients a flat fee and away from a model based on a percentage of assets under management.

In 2016, according to a Netwealth analysis of advice firms on its platform, almost 30% of clients with an account balance of more than \$3 million were charged either a flat fee or a combination of flat and percentage-based fees.

Three years later, in 2019, the total number of HNW clients who were charged a flat fee had increased significantly.

By then, a majority of clients with a \$3 million+ account balance (51.7%) were charged in the same way, as were clients in the \$1-3 million band.

Transparency appears to be an increasingly important aspect of fee

structures. A flat fee structure is often seen as more transparent and straightforward than a percentage-based model.

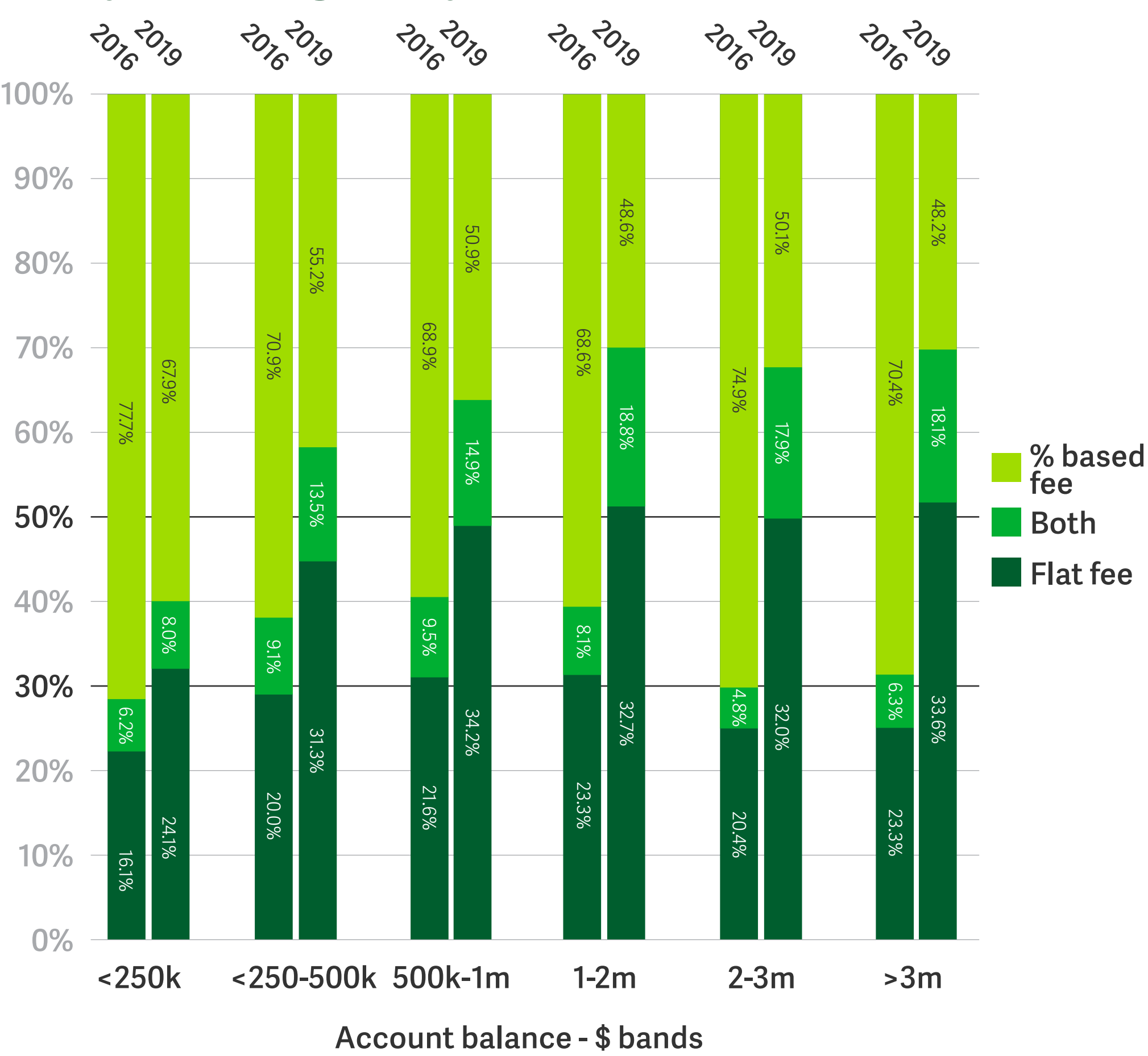
Macphillamy & Associates director Tim Macphillamy says his firm is flexible in the way it charges fees to high net worth clients.

“For clients who sign up for our portfolio management services, we charge either a fixed fee or a percentage of funds under management,” Mr Macphillamy says.

“In addition, for our family office services, which often involve assignments and projects for clients, our fees are mainly based on our hourly rate.”

William Buck’s Adrian Frinsdorf says that, even with percentage-based fees, it is still necessary to offer value.

Fee types charged - by account balance



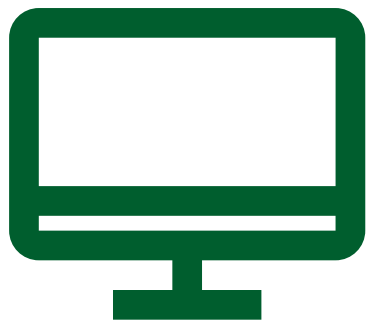
“The amount of money we manage for high net worth clients is more, so the overall fee is higher. However, the percentage rate is lower,” Mr Frinsdorf says.

“In addition, for our ultra high net worth clients, some of the percentage-based fees are capped, and that certainly reduces the overall cost.”

This is illustrated in the following Netwealth platform data, where you can see a lower average percentage-based fee per amount of dollars invested for HNW clients.

In a Netwealth webinar at the beginning of 2019<sup>19</sup>, Peloton Partners CEO Rob Jones suggested that, in a post-Royal-Commission world, financial advice firms are naturally progressing towards an authentic fixed fee model, which can flex with clients’ changing circumstances while still allowing advisers to earn a profit.

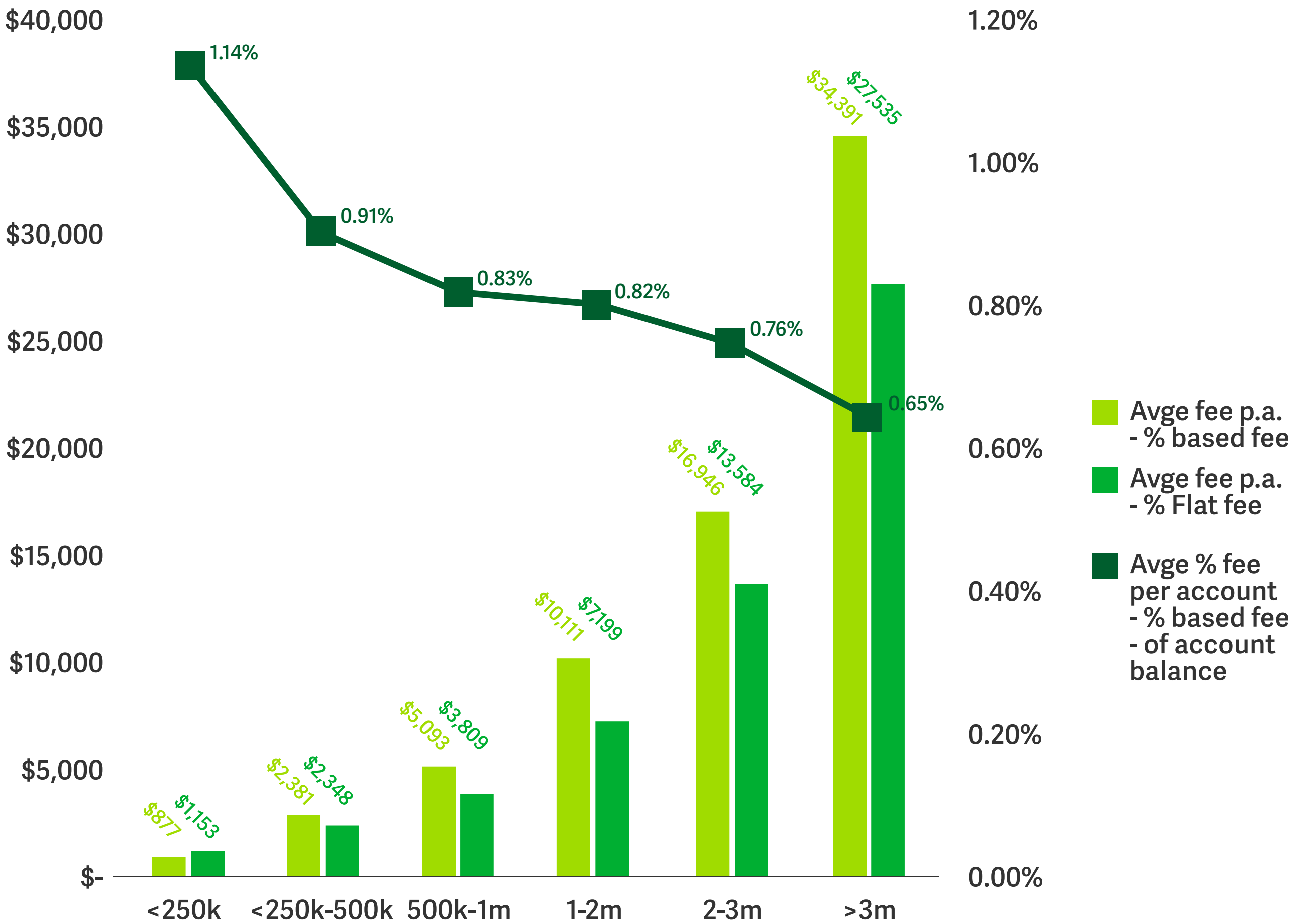
“Having a pricing model that can change as clients change, in my view, maintains a perfect alignment between adviser and client,” Mr Jones said.



**For clients who sign up for our portfolio management services, we charge either a fixed fee or a percentage of funds under management.**

**- Tim Macphillamy, Macphillamy & Associates**

2019: Average fees / Average %age based fee



<sup>19</sup>Netwealth, 'Building a fee model in a post-Hayne world'. <https://www.netwealth.com.au/web/resources/insights/building-a-fee-model-in-a-post-hayne-world/>.



# 3. The DNA of advice firms that succeed with high net worth clients

Netwealth spoke with the directors of financial advice firms that successfully cater to the needs of high net worth clients, to explore their points of difference. This is what they told us.



## Koda Capital

Koda Capital is a private, independent wealth management firm with offices in Sydney, Melbourne and Brisbane. It provides high net worth clients with investment strategies, structuring and tax, philanthropy and social capital, and family leadership.

When chief operating officer and partner Andrew Rutherford spoke with Netwealth, he described Koda Capital's value proposition in broad terms.

"What we say to clients, in terms of our offering, is twofold," Mr Rutherford said.

"One is that we are unconflicted. That means we are always on the same side of the table as the client when it comes to any investment. We never keep a dollar of commission or rebate from any product we recommend to a client. If we say to a client, 'You should invest in this', the only benefit we get is the fee the client pays us. So, our advice is completely unbiased and unconflicted. There isn't anyone else in the market, of Koda's size, who can truly say that.

It's an important value and differentiator for us.

"The second part of our proposition is that we can serve all the needs of a client – the investment strategy, tax structuring, estate planning, all of that structural side, as well as philanthropy and social capital. The last dimension is family leadership – that's where we sit down with a family and ask 'How are you, as a family, going to handle this money without conflict?' That's an increasing part of the Australian landscape, as there are more families with more money."

"Most of our new clients are referred to us by other clients or by other people we know, such as accounting firms, law firms or corporate advisers.

"[With high net worth clients] the more complex the needs and the more complex the environment, the more the client wants personal contact and communication. Influencing someone, helping them to achieve peace of mind, requires personal contact.



**That personal, emotional connection, with the peace of mind it brings, adds a lot of value that goes beyond the logical.**

"The advice relationship is like the relationship with a personal trainer in the fitness environment. You can put a pair of running shoes on and run around George Street and you might eventually get fit. But you probably won't push yourself as hard as you would if you had a personal trainer. You might also injure yourself and not feel so good about it. A good personal trainer will tailor a program specifically to where you are, how you've trained over time, your current circumstances etc. It's the same with a good financial adviser. They will help you achieve your goals, respectfully challenge you and reduce your risk of adverse outcomes.

"That personal, emotional connection, with the peace of mind it brings, adds a lot of value that goes beyond the logical."

**Andrew Rutherford**





## Lipman Burgon

Lipman Burgon & Parters was originally established as the wealth advisory arm of Investec Bank (Australia). In 2011, founders Robert Lipman and Paul Burgon acquired the business, which has its own Australian Financial Services Licence and manages more than \$1 billion in assets on behalf of individuals and families, associations, charitable trusts and foundations.

Co-founder and managing director Paul Burgon describes his firm as a “true boutique, which has a genuine partnership model” with its clients.

“The service level has to be exceptionally high, and our clients get a discreet boutique experience,” Mr Burgon says.

“I often explain to clients that our main competition would be large private wealth firms or investment banks. While we spend around 75% of our time servicing our clients and 25% of our time marketing and growing the business, this ratio is almost switched on its head at the

larger institutions. They tend to spend 25% of their time looking after their clients and 75% of the time they’re trying to generate new business.

“It’s that true partnership, long-term, high level of service that’s important to us.

“We also differentiate our offering – due to our size and because we have our own financial services licence – by seeking out unique investment opportunities available to the wholesale market, of a size that a larger firm couldn’t participate in, and that really makes a difference for our clients.

“Examples from past years include a couple of private debt opportunities where it’s only been a deployment of \$6-8 million of capital, and the returns have been quite asymmetrical on the risk-return side, generating 10-12% returns on very secure capital-structure-type debt. But the investment opportunity has only been available for a small amount of capital.



**It’s that true partnership, long-term, high level of service that’s important to us.**

“A large institution couldn’t take that opportunity, because it couldn’t make a difference across its client base. So, we spend a lot of time researching those types of wholesale investment opportunities that we can take to our clients.”

“We also now have a chief investment officer here who has over 20 years’ experience in investment banking – 10 years as an equity analyst and 10 years as an equity research sales director. That provides us with a deep analytical capability to source and select investment opportunities that we can bring to our clients.

“Because we run our own licence, we can bring a much broader range of investment opportunities to clients than they would get if they went to a larger, more regulated firm.”



**Paul Burgon**

## William Buck

William Buck is a firm of accountants and advisors with offices across Australia and New Zealand. Established in 1895, the firm has over 100 directors and 600 professional staff, and is wholly owned and operated within Australia and New Zealand.

Adrian Frinsdorf is a director (wealth advisory), based in Adelaide, who specialises in advising high net worth clients.

“We provide high net worth clients with an integrated service for all of their financial affairs, inclusive of accounting and financial advice,” Mr Frinsdorf told Netwealth.

“We have always been very transparent with fees and all of our initial agreements are still a handshake.

“We provide an advice-based review service and portfolio administration (bill

paying) with a very large focus on asset allocation and specific investment beliefs.

“We also have a team approach, with the adviser playing a central role in coordinating our advice. Our investment decisions are governed by written beliefs with dynamic asset allocation and best-of-breed products. Where possible, we like to provide direct investments. We do not believe in managed accounts and every portfolio is individually designed for the client

“In fact, every client has a customised plan. We always plan first and add the service after that. We are clear that we focus on after-tax returns and we look at the whole of a client’s wealth, not just portions of it. All of our reporting is based on the client’s entire wealth position and we view that in partnership with our clients.

“We have always been a high net worth practice, with some ultra high net worth clients.



**We provide high net worth clients with an integrated service for all of their financial affairs inclusive of accounting and financial advice.**

“The fastest-growing part of our business is ultra high net worth. This is for a few reasons. For example, the increase in equity and property prices has made \$5 million clients into \$10 million+ clients. Our firm has attracted some ultra high net worth clients away from institutions. The accounting side of the business has also grown and attracted great South Australian businesses, with some of the owners of these businesses having sold and made a lot of money.”



**Adrian Frinsdorf**



## ShineWing Australia

ShineWing is an Asia-Pacific accounting and advisory firm, with more than 35 partners in Australia and an 80-year history of servicing local and international clients.

The firm's member alliance with ShineWing International, with 10,000 people across 14 countries, also gives its clients access to ShineWing China, which is the largest indigenous Chinese domestic accounting practice – creating unique opportunities while providing local knowledge and real connections.

Partner Daniel Minihan generally refers to his high net worth clients as 'families' rather than 'individuals'.

"Most of our families come to us through word-of-mouth or through the accounting practice or our Asian network," Mr Minihan says.

"Essentially, our job is to help clients align their goals and values, organise and oversee their entire family financial affairs, and ensure a smooth transition from one generation to the next.

"Our advice encompasses ten core services. They are asset management, structuring, accounting, taxation, cash flow, banking, estate planning, philanthropy, reporting and advisory.

"Most of our families take all of those services, while some may only take a few, but would generally scale up to all of the services over time.

"The way we operate is that, depending on the meeting frequency with the families – which is determined in consultation with the family and based on complexity, need, preferred communication and style – we cycle through an annual process where we'll address all the different areas of need.

"For example, wills and estate planning will be reviewed and addressed annually, whereas cash flow, budgeting and forecasting might be looked at quarterly or monthly.

"We help clients to identify the asset allocation and asset class they want to be investing into. If we can provide that service – e.g. if they just



**Our job is to coordinate the whole family financial piece, because we don't have all the answers.**

want exposure to the Australian market – we might help them buy an ETF, a managed fund or something like that to get some index exposure. But if they want to invest into discrete asset classes, we can build a solution for them or bring in third-party investment advisers or specialists. We might, for example, bring in a broker to run a specific hybrid portfolio mandate. Sometimes we will also work with other investment businesses that, notionally, would be competitors to us, but they might have a unique investment offering into a particular asset class, so it's in the client's best interest to utilise their experience and knowledge.

"Our job is to coordinate the whole family financial piece and, where appropriate, bring in external experts because we don't have all the answers."

**Daniel Minihan**





## Macphillamy & Associates

Macphillamy & Associates is a privately-owned boutique private wealth management business that provides discreet, tailored financial solutions to meet the needs of high net worth clients.

The firm's clientele includes entrepreneurs, senior executives, family businesses, retirees and charitable organisations.

We spoke with founder and director Tim Macphillamy about his firm's approach and goals for his clients.

"Our aim is to outperform the market by more than the cost of our fees, while maintaining prudent risk," Mr Macphillamy said.

"We spend a lot of time in researching best-of-breed funds, listed shares and investment opportunities for clients. Transparency is important to us – as

well as historical performance, we need to understand the process and the people involved.

"Apart from meeting with principals, we have access to comprehensive research through leading stockbrokers, Morningstar, FNArena and BCA.

"We use Xplan and Netwealth systems to monitor investments and performance on a daily basis, and prepare formal quarterly reviews for each of our clients, meeting with them to discuss within a month after each quarter. Our quarterly review reports are comprehensive and transparent, and focus on performance attribution.

"We also seek to tactically position portfolios based on comprehensive economic research, which we share with clients on a monthly basis. This enables us to add value through subtle shifts – for example, moving to overweight



**Our aim  
would be to  
outperform  
the market  
by more than  
the cost of  
our fees.**

position to cyclical sector stocks, switching in emphasis from unhedged to hedged global investments, realising profits from longer-dated fixed interest investments, moving to underweight exposure to US and overweight to Asia/Europe etc.

"Our family office services add another dimension to our kit. Given our depth and length of experience, we are well positioned to provide a far broader role to clients and prospects – that is, to be the proactive confidante. We enjoy the challenge to achieve where others have failed."



**Tim  
Macphillamy**

## ANZ Private

ANZ Private is a division of the ANZ Banking Group and provides high net worth clients with specialist services in the areas of wealth and investment advice, lending, risk advice, estate planning, capital markets and philanthropy.

Michael Norfolk is Managing Director, Private Banking and Advice. He describes his business as an organisation that helps with the complex needs of its clients.

"I do like the sense that we are an adviser to clients – whether that is advice with a capital 'A' and we are supported by a very regulated framework, or whether it's small 'a' advice and we're thinking about a more generic value-add that's beyond just 'Here's a product and here are the features, or here's the platform and here are the features.' This is important as we advise across banking, investment and wealth needs".

"Given this breadth, the two key elements for us are 1) facilitating the move from complex to simple and 2) that we are advisory in the way that we engage.

"In this way we can help people who are going through their professional life, who have a debt cycle, and emerge into affluence over time. The types of people in that segment might be business owners, C-suite executives or professionals (such as doctors, lawyers, accountants and consultants).

"We have a specialist team that helps people who are coming into life-changing amounts of money. For those clients, particularly those selling a business, the burden of loss of identity or community purpose can be a part of the challenge that they face, and it's where a private banker can add a lot of value. How do you get ready for exit? It's actually quite a complex process and



**We have a specialist team that helps people who are coming into life-changing amounts of money.**

one that we find most people go into unprepared at the start. We spend a lot of our time unwinding decisions that have been made previously. It's quite an investment-heavy, usually-wholesale advice area."

"Finally, we have some 30% of the family and private office market in Australia and are specialists in dealing with the complex needs of the staff supporting these wealthy Australians in their intergenerational investment and philanthropic challenges".



**Michael Norfolk**



# About Netwealth

We are a technology company, a superannuation fund, an administration business. Take advantage of Netwealth’s robust and fully-featured platform that is both powerful and flexible enough to meet the evolving needs of your business and clients.



**Rated Australia’s #1 platform**

Ranked number one for overall user satisfaction for the past 8 years and ranked number one as having the best overall functionality for the past four years by Investment Trends<sup>20</sup>



**Technology**

Access the latest technology and innovations. Our focus is on ease and efficiency, which means we give you and your clients enormous capabilities without the complexity.



**Choice and flexibility**

Netwealth has a solution for all the wealth needs of your clients. Whether they are looking for superannuation, SMSF administration, wrap accounts or insurance, we offer you and your clients real choice that can be tailored to match individual circumstances.



**Wide range of investment options**

An extensive range of investment choices to fulfil the needs of all your clients, including international equities, IM funds, domestic and international bonds and the ability to trade global security markets using native currency.



**Managed accounts**

Not all managed account technology is equal. Enjoy the efficiency and scale benefits Netwealth’s Managed Account can provide your business. And it is fully integrated with our super and wealth services.



**Support**

Making sure your business runs smoothly and efficiently is as important to us as it is to you. That’s why Netwealth offers a four-tier support system, so whenever you need help, training or guidance, someone from our dedicated team will be there to help you.



<sup>20</sup>Investment Trends Planner Technology Report (<https://investmenttrends.com/projects/planner-technology-report-2/>) and Platform Benchmark Report (<https://investmenttrends.com/projects/platform-benchmarking-report/>).



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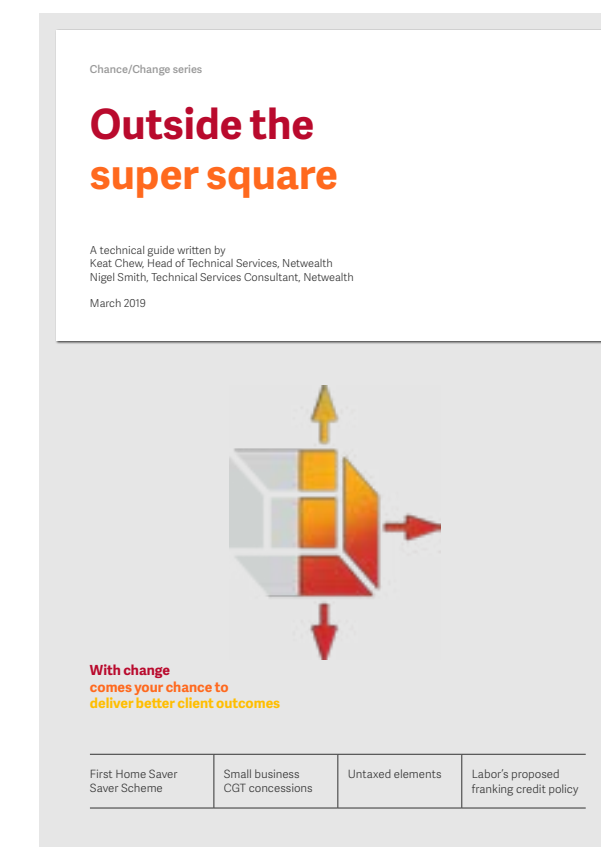
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