

IWP DUBLIN FORUM

Institutional Wealth Managers What is their future?

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WHAT WE WILL COVER

The world turned upside down
(Lord Cornwallis at Yorktown – 1781)

- What is an institutional investment manager?
- What are other investment managers?
- What are some of the issues they face?

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WHAT WE WILL COVER (II)

- Where do we go from here?
- Is the world as dangerous as it seems?
- The OECD and the Alphabet Soup Brigade – are they the Black and Tans of the 21st Century?
- A few conclusions

WHAT IS AN INSTITUTIONAL INVESTMENT MANAGER?

- Traditionally, a firm that managed corporate wealth
- Today covers more – many families are institutions
- Perhaps better definition is firm that
 - Offers services to public
 - Provides broad panoply of product
 - Looks to diversification

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WHAT IS AN INSTITUTIONAL INVESTMENT MANAGER? (II)

- Seeks to attract high-end wealth
- Provides high-touch service to clients
- High cost (to clients), but high service
- Expects to be highly regulated

WHAT ARE OTHER INVESTMENT MANAGERS?

- Niche service providers
 - By limited investment product they offer, or
 - By market on which they focus
- Rise and fall of alternative investments
 - Hedge funds have gone through a rough patch
 - Private equity challenged by “direct investment”

WHAT ARE SOME OF THE ISSUES THEY FACE?

- New universe of investment products
- Globalization of investment offerings
- How real is the developing world and markets?
- Who are your competitors?
 - Everyone wants someone else's market
 - What will happen in the next down market?

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WHAT ARE SOME OF THE ISSUES THEY FACE? (II)

- How bad will regulation get?
 - Is being fined part of the cost of business?
 - Will some scapegoats go to jail? (Let the crime fit the punishment)
- Newer technologies, newer mousetraps?
- Who is your next market?

WHERE DO WE GO FROM HERE?

- Wait! Let me get my crystal ball!!!
- More emerging markets
 - More deals
 - More new customers
- More regulation (when does it stop?)
- Product will become more bespoke

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WHERE DO WE GO FROM HERE? (II)

- Investment product will become more siloed
- Salespeople will need more international skills
 - Understanding of markets
 - Understanding of clients and their customs
 - More linguistic skills

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IS THE WORLD AS DANGEROUS AS IT SEEMS?

- In the words of Sarah Palin, “You betcha!”
- Investment advisors, accountants (and yes, even lawyers) are paying fines and going to jail
- New regulations are being published constantly
- Investment managers need to be much more careful

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IS THE WORLD AS DANGEROUS AS IT SEEMS? (II)

- This is as much a part of the problem as part of the solution
 - Slows the system to a crawl
 - Alienates customers
 - Raises costs geometrically (who pays?)
- KYC becomes CYA

OECD AND ALPHABET SOUP – THE NEW BLACK AND TANS?

- Plenty of international regulation
 - FATCA
 - CRS
 - Regional rules (*e.g.* EU)
 - Territorial imperialism – Crown dependencies and overseas territories

OECD AND ALPHABET SOUP – THE NEW BLACK AND TANS? (II)

- OECD, FATF, UN
 - Non-Governmental bodies with plenty of authority
 - Often, employees pay no tax
 - Can wreck economies of countries
 - Not accountable to public

OECD AND ALPHABET SOUP – THE NEW BLACK AND TANS? (III)

- Went after terrorists and money launderers –
 - Middling success
 - Main thrust is tax evasion
 - Results have been mediocre, at best
 - What happens after all the bad guys are caught?
 - Will they dismantle the crippling bureaucracy?

A FEW CONCLUSIONS

- We seem to be muddling through
- The offshore world is in imminent danger
- Long live the onshore and near-shore world
- Corporate inversions – are they goners?
- A final history lesson – Judge Learned Hand

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A FEW CONCLUSIONS (II)

Judge Learned Hand *Gregory v. Helvering* (69F.2d 809)

"Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes. Over and over again the Courts have said that there is nothing sinister in so arranging affairs as to keep taxes as low as possible. Everyone does it, rich and poor alike and all do right, for nobody owes any public duty to pay more than the law demands."

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