

Investing

The bank that costs £25m to join

John Arlidge, Evening Standard
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The old adage of the rich always getting richer has never rung more true - as a glance at the annual wealth tables shows. Each year, the families at the very top seem to add to their fortunes with effortless ease.

Talk of an economic slowdown may be worrying the rest of us but it is unlikely to ruffle the very wealthy. Such is their enormous influence that a booming new industry has sprung up to meet their particular financial requirements.

Once, the landed aristocracy and gentry left the management of their money to senior figures at discreet accountants, trusted banks and lawyers. Now the independent 'family office' is all the rage - the Wall Street Journal recently devoted a major feature to the way in which the richest US families looked to teams of specialist experts to look after their cash and make it grow. Some of these advisers were becoming hugely wealthy in their own right, such was the demand for their services.

Where America leads, the UK is not far behind. Sure enough, popping up in London - particularly in the private client financial districts of Mayfair and St James's - are family offices. For the rich, having a specialist firm look after your affairs is a must-have item. Only this week Barclays Wealth, Britain's largest private banker, announced it is to create 800 new jobs globally.

William Cash, editor of Spears Wealth Management Survey, which chronicles London's burgeoning wealth management sector, says: 'Having a private investment office is suddenly as important as having the right yacht. At parties, you hear people competitively name-dropping whether they are with this private office or that.'

From a standing start a few years ago, modern family offices - or private investment offices, as they are technically termed - now handle more than £40bn for the wealthiest new and old money families in the capital.

William Drake, one of the first to set up Lord North Street, a private investment office, says: 'The sector is growing like crazy. When we started - in a kitchen five years ago - we had no clients and there were few private firms around. Now we have almost 20 clients and several billions under management and there are a variety of private investment offices.'

Lord North Street, run by Drake and his co-founder, ex-JP Morgan banker Adam Wethered, is on 'Boutique Bank Boulevard', as St James's has become known. Around the corner in the Bishop of Ely's former palace in Berkeley Street is

Fleming Family and Partners, run by the Fleming banking family.

Nearby are Sand Aire, run by Alexander Scott, who led the sale of Provincial Insurance and Exeter Bank in 1994, Partners Capital, run by Stan Miranda, former partner at Bain and Co, Stanhope Capital, which has assets exceeding £2bn, and AlphaOne Partners, run by former Goldman Sachs wealth manager Nicholas Sarkis. Other local pukka outfits include Kedge, Unigestion and Arundel Iveagh.

Their clients include aristocrats such as the Guinness banking and brewing billionaires, property tycoons, old and new, notably the Portman family of Portman Square fame and developer Sir John Beckwith, and the odd international 'Mr Fix It', the best-known of whom is Syrian-born billionaire Wafic Said.

There are modern business tycoons. Tom Singh, founder of high-street fashion chain New Look, uses a Mayfair private office, as do Sports Division founder and Scotland's richest man, Sir Tom Hunter, and JCB's deep digger, Sir Anthony Bamford. Public entertainers Sir Mick Jagger and Phil Redmond, creator of the soap opera, Brookside, enjoy the discretion that private banks offer.

Among the wealthy foreigners banking on London are Sweden's Hans Rausing, founder of Tetra Pak, Lakshmi Mittal, the wealthiest man in Britain and boss of the Indian-based Mittal Arcelor steel giant, and Ernesto Bertarelli, Switzerland's richest man, and his English wife, Kirsty.

Like any exclusive private club, private investment offices have their own rules. Minimum deposit is £25m but that only marks you out as a high net worth - HNW - individual. Drop £75m and you are very high net worth - VHNW. To get bragging rights, you need to open your account with £100m, marking you out as an ultra high net worth - UHNW.

'If Nancy Mitford were around today, she would most likely be writing not about the distinction between 'U' and 'Non-U' but between the UHNWs and their poorer cousins, the mere HNWs,' jokes one private investment office banker.

Rich people hiring not-so-rich people to make them even richer is not new. Family offices first appeared around the turn of the 20th century when a wealthy family's long-serving accountant or lawyer was appointed to handle the family's accounts and legal affairs. They would pay bills, draw up budgets and invest in stocks and bonds. When called upon, they would discreetly handle family problems, ranging from dealing with a sick family pet to handling the blackmailing mistress or bailing out the spoiled son who was always getting arrested.

But, in recent years, globalisation has swept away this sleepy world. Wealthy families have split their household management between private investment offices, which handle their money, and high-end concierge outfits, which smooth over scandals and specialise in booking holidays on islands where the sand on the beach is 'just the right shade of motherofpearl'. Unicorn, based in Maidenhead, Berkshire, is Britain's leading family concierge group and acts for the Goldsmith family. Its founder, Charles Filmer, describes his firm as the 'back office' to the family 'front offices' of Mayfair.

Those front offices are attracting the City's brightest and best. One of them is Paul Ross. He used to run his own fund management business but now manages some £400m for the Guinness family at his private investment firm, Arundel Iveagh, near St James's Park.

'Thirty years ago, investment was pretty much about UK stocks, bonds and cash,' he says. 'Now there are global hedge funds, private equity, **derivatives** and currencies to invest in. There is unprecedented opportunity - and unprecedented risk. Getting investment right is a specialist job.'

Ross argues that wealthy families are turning to the new small private investment offices because of dissatisfaction with the family divisions of the big City banks, such as JP Morgan and UBS. 'Private banks say they act independently for each client but that's total nonsense. They regard their high net worth clients as a distribution channel for their own products. If you go to the big banks, you will find your money ends up in products they back.

'We don't have any of our own products, so we can be truly independent and offer bespoke solutions with unbiased pricing. Coming to us is a bit like putting on a Savile Row suit, rather than something off the peg from Giorgio Armani.'

The Armani-wearing bosses of the big banks, unsurprisingly, beg to differ. They argue that the scale of their assets and the range of their services and products give their top clients a level of access and service that small houses cannot match.

'We understand the individual circumstances of each family and its wealth, and work closely with them to determine the right approach,' says Olivier de Givenchy, UK head of JP Morgan Private Bank. 'Trusts, wealth planning, sophisticated asset management are all examples of areas where families have needs, but education and the preparation of the next generation for the stewardship of wealth are just as important.'

No one disagrees that private investment offices offer families the chance to participate in some of the most entrepreneurial investment-banking type deals in the marketplace. For example, Fleming's Highland Gold deal has already achieved the status of legend.

Roddie Fleming's decision five years ago to buy a large stake in Highland Gold for £40m from associates of Chelsea's multi-billionaire owner Roman Abramovich

has brought an estimated £160m return for his family clients, thought to include the 19th Earl of Derby and Charles Palmer-Tomkinson.

Private investment offices usually spend six months with a family working out what they want to do with their money. 'Some want to grow aggressively for future generations, some want to grow it and give it away,' says Adam Wethered of Lord North Street.

They do not have fund managers of their own but specialise in finding 'best of breed' managers in each asset class - private equity, hedge funds and so on.

'We're always in the City, New York, Geneva with our ears to the ground,' says Nicolas Sarkis, CEO of AlphaOne. 'I want to be the first to know when a hedge fund manager is getting divorced or seeing a shrink for depression.'

Offices report monthly and meet families quarterly. Families fly in to London on their private jets for morning meetings and return home in time for supper.

They tend to charge an annual percentage fee rather than performance-based pay. Wethered explains: 'We at Lord North Street believe annual fees avoid the temptation to take too much risk and mean you don't get into an awkward situation where because the market is falling but you are not doing as badly as the market overall, you are asking your client for a bonus when he is losing money.'

No matter how fast they are growing, private investment firms are not without risk. Over-dependence on a few families means, as Ross puts it: 'We're all one or two bog-ups away from shutting up shop. The trick is not to make one - or not a big one, anyway.'

But for every one who suffers, several more will crop up. There is a new industry and London is a booming city, of many wealthy people with only one desire - to get even richer. The gap between rich and poorer looks set to become even wider - the private investment offices will try to see to that.