

Wealth Watch

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FEATURE STORY

"Boring Is the New Sexy"

Clients are fleeing the once-high flyers and flocking to banks with reputations for being steady, if not downright staid

By Anne Field, journalist, Pelham, N.Y.

Not long ago, it wasn't unusual for folks at Fiduciary Trust Company International to lose a prospective client to a competitor who promised access to all the latest, hot alternative investments. But Fiduciary Trust, a custodial bank founded in 1931 by a group of lawyers looking for a safe haven for their clients' holdings, held the line, refusing to change its conservative philosophy and offer more fashionable—and aggressive—choices.

What a difference a market catastrophe makes. Now, like a bespectacled bookworm who suddenly becomes a prom queen, the bank is the belle of the ball. It's being flooded with assets from clients seeking the security of a reliable institution.

While the company won't reveal revenues or assets, officials there will say that Fiduciary Trust signed up three times as many clients as usual in September 2008 alone.

"Boring is the new sexy," says Gail Cohen, executive vice president and head of global wealth management at Fiduciary Trust.

Fiduciary Trust isn't alone. A handful of stick-in-the-mud private banks, wealth management firms, trust companies and others who didn't indulge in sub-prime loans or other toxic investments, are also experiencing a quantum leap in new clients looking for a safe home.

The roster includes Bessemer Trust, Bank of New York Mellon, J.P. Morgan, and a number of others. In many cases, they're also getting a bigger share of existing clients' portfolios. A few firms are even reporting that last year was a record year for new business.

"Some of these institutions are taking in so much money, they don't know what to do with it all," says Joseph Field, senior international partner at Withers Bergman, a New York-based law firm (and no relation to the author of this article).

STEADY AS SHE GOES

All those new accounts have helped some firms maintain a steady level of assets. The reason: while existing assets under management generally fell thanks to the market downturn, the new money has helped make up the difference.

Case in point: Bank of New York Mellon. Total private client assets "before all hell broke loose" were \$158 billion, according to Joe Fernandez, managing director. Although that money took a hit (Fernandez won't say by how much), total assets are now \$162 billion, because of the inflow of new accounts.

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Or, take Bessemer. In 2008, the company added 17 new clients, up 65 percent from the year before, for a total of about \$3.5 billion in new assets. Its total of \$52 billion in assets is about the same as the year before. "That new business definitely offset market value declines," says Robert Elliott, senior managing director.

And, at J.P. Morgan Chase, the private bank "saw unprecedented inflows of new assets and new-client acquisition," says Joanne Johnson, head of U.S. trusts and estates for J.P. Morgan Private Bank. Net new asset flows in 2008 of about \$80 billion represented a 25 percent increase from the year before; total client assets at the private bank are \$417 billion.

The trend is by no means confined to the United States. At Pictet, a Geneva-based private bank, all areas of the firm's business—institutional asset management, private client services, and global custodian services—have seen an uptick, according to Dina De Angelo, director. Although she won't divulge numbers, she does say, "2008 was an amazing year for us."

Another Geneva-based private bank, Lombard Odier Darier Hentsch, reports that it has been turning down prospective clients who don't meet its standards. "We do not expect to take on clients without both parties getting to know each other over time and understanding each others' expectations," wrote Sally Tennant, CEO of Lombard Odier in London, in an email responding to our inquiries.

And, according to Francesca Boschini, director of fiduciary solutions, United States and Latin America, at the Royal Bank of Canada, the bank has had a "significant" increase in assets from both new clients and existing accounts.

The attraction for many clients lies largely in the slow and steady investment philosophy of these institutions. Bessemer, for example, used auction rate securities for about four months, then dropped them in early 2008, when it became clear they were "having trouble getting them cleared," according to Elliott. In addition, client portfolios tend to have no more than 10 percent to 20 percent in hedge funds or private equity. Also, the bank avoided such risky areas as emerging markets.

Pictet had no investment in sub-prime instruments—at all. And, about 18 months ago, it took the step of moving from investing in gold funds to investing in the actual, physical stuff. "People want to come to the building and see their pile of gold," says Di Angelo.

The structure of these firms and the nature of their business are also lures. Take Mellon. As a traditional wealth manager and trustee, its clients' assets, of course, are segregated from the organization's balance sheet, providing an attractive source of protection. Bessemer, like most of these firms, makes no commercial loans. "We're only in the business of managing money for high-net-worth individuals," says Elliott.

Perhaps most notable is Pictet and Lombard. Because both are run as partnerships, it's the owners who are liable if the bank were to fail. As a result, the partners are particularly careful about their investment decisions. "If our clients lose everything, we lose everything," says Di Angelo.

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The bottom line for many clients is that these institutions not only exhibited sound judgment, but also seem to be the most likely players to remain solvent.

There's also the government bailout factor. Fernandez recalls one entrepreneur who became spooked last fall when the financial institution holding his \$50 million account accepted a liquidity injection from the government. He switched his money to Mellon.

In some cases, people have moved their accounts in a veritable state of panic. Elliott points to a client who decided last fall to move his \$20 million account from his then-current bank to Bessemer—and to have it done in 24 hours, threatening to sue the original institution if it didn't comply. "That's the kind of fear these people are in," he says.

Other clients moving their money are particularly interested in taking a more active role. According to Di Angelo, many of the new accounts at Pictet are insisting on putting their money in the advisory, rather than the discretionary, area of the business. "Clients coming in want to know what they're investing in," says Di Angelo. "They want to retain the decision-making authority."

Despite the flood of money, most of the firms are not staffing up. One exception is Mellon. According to Fernandez, the bank has increased business development staff by 10 percent to 20 percent recently. In his West Palm Beach Fla. office, he just hired a new senior portfolio manager.

How do the executives at these institutions feel about their new popularity?

"Vindicated would not be a bad word to use," says Elliott, who recalls a time in the recent past when clients regularly reacted with incredulity when he refused to take more aggressive action. "People used to say, 'They're not the sharpest pencil in the box.' Now, they see our approach was the right one."

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