INTERNATIONAL ADVISER

Science beats psychology in advice, says S Africa's PCH

With South African clients focused on overseas investment opportunities, local wealth manager Private Client Holdings (PCH) uses investment science rather than psychometric testing to advise clients.

Andrew Ratcliffe, director of PCH told *International Adviser* that the firm takes a goal-based approach to wealth management. "We try to dive a little deeper, to deconstruct the whole investment process and apply our investment science.

"We focus on talking to clients about their goals and dreams, and also their fears and concerns. We deconstruct these into specific goals, which might achieve lifestyle, legacy, philanthropy or other objectives.

"We then apply an investment science, setting targets in terms of a specific risk/return matrix around that goal, as opposed to doing a psychometric test and putting the whole thing in one pot."

He credits this strategy with helping to create an award-winning wealth management and financial services operation during the past 25 years by building on the concept of 'good advice'.

Founded in 1990 as a corporate tax consultancy practice in Cape Town, its current incarnation is more of a family office where the focus is on offering a full range of services for its clients.

Firm foundations

“We have no institutional parent and are not owned by a bank or life assurer. Our process is strictly advice-driven, as opposed to being based on product sale. Everything we have built is based on sound advice,” says Ratcliffe, who heads up the wealth management division.

PCH is one of the larger independent wealth management companies in South Africa, offering everything from tax and accountancy services through to asset management and portfolio advice to banking and fiduciary services.

“I started my career as a tax manager doing the tax work. As the needs of our clients grew over the years, we added more services. By 2000, we had launched our asset and wealth management and fiduciary services.

In terms of revenues, Ratcliffe says the wealth management and portfolio management services are about 60% of the business.

Fiercely independent

In terms of products recommended to clients, Ratcliffe argues that PCH’s independence is a real differentiator. “Being fiercely independent ourselves, we would research the market and try to identify what’s best for our clients, but at the same time, try and keep more deep and meaningful relationships with a select few suppliers, and not try and keep the entire market happy.”

He says wealthier families in South Africa tend not to want too much concentration of risk in their portfolios, so are always looking abroad. Many have established their own international portfolios, or may have been beneficiaries of offshore money.

As a result, in terms of asset managers, PCH looks beyond the main local firms to the likes of Canaccord, Brooks Macdonald and Pictet, and uses Saxo Bank as its offshore stock broker.

“We manage a lot of our clients’ money from here but we certainly are not arrogant enough to believe we can do it all ourselves. We’re happy to partner with international trust companies and fund managers.”

Themes and schemes

Many of PCH’s clients also have offshore pensions and so it has done Qrops business but Ratcliffe says the market is pretty fluid at present.

“Qrop schemes are certainly something we would assist our private clients with, and we have relationships with people in Gibraltar and similar jurisdictions, but it’s not a big part of our business.”

In terms of offshore bond wrappers, Ratcliffe says these products can make sense for clients in the higher tax brackets.

continued on the next page

“This is mainly from an inheritance tax or probate point of view, as well as certain tax arbitrage opportunities. As a rule, they can work for South African tax residents,” he says, while noting that for non-resident South Africans it would depend heavily on which jurisdiction they are coming from.

Another product increasingly featuring on Ratcliffe’s agenda are exchange-traded funds (ETFs).

“Within our segregated offshore portfolios, we would use a combination of ETFs, smart beta strategies, big global themes and bespoke equities, whether that be a Euro Stoxx, US pharmaceutical or Japan equity theme, and try and implement that through various ETFs,” he says.

“Together with specialist direct equity and then, obviously, your big branded funds, is how our portfolios are constructed.”

PCH has its own in-house investment committee to help make its investment decisions but also makes use of external asset market consultants. “We follow a robust investment process, focusing on finding long-term value by investing in quality businesses with earnings momentum at attractive prices,” says Ratcliffe.

“We combine this bottom-up stockpicking approach with top-down macro overlay. We purposely do not follow a particular style and believe that by blending the different styles we will deliver long-term alpha.

“It’s all part of the wealth management advisory and investment science,” he says.

PCH also aims to provide portfolios for different outcomes described as income, wealth preservation and growth.

This involves putting the investments into risk buckets and assessing the short-term risk of market volatility, versus the impact of a longer-term risk such as inflation.

Ratcliffe says during the currency volatility sparked by the recent downgrade of South Africa’s credit rating to junk status, its strategies proved their worth.

“Thankfully, the phone lines were fairly quiet, and I think that’s largely because we had been talking about diversified currency portfolios to our clients and the possibility of this ratings downgrade since 2010, suggesting they should consider taking a bigger exposure offshore.

“Having some sort of strategic plan, something you can anchor back to in times of volatility, whether it’s the currency or the markets, makes conversations a lot easier.”

Ratcliffe says PCH has positioned its portfolios tactically for the growing risk of the downgrade and has taken a maximum overweight offshore position.

While riding out the volatility in the currency markets, the firm is also prepared for the big changes expected in financial advice businesses in South Africa from the next phase of the country's planned retail distribution review (RDR).

"We've had all sorts of legislation implemented over the years, and the industry has raised the bar. RDR can only be a good thing.

"PCH is well positioned for RDR in the sense that our advisory, asset management and fiduciary entities are all separate companies, with separate licences.

"So, while we don't know what the final version of RDR is going to look like, as far as our advisers, the advice company and the asset management firm are concerned, we are all good to go."

continued on the next page

Robo-advice

PCH is one of only a dozen professional practices approved by South Africa's Financial Planning Institute (FPI), meaning more than 50% of its advisers have to carry the professional FPI designation.

Ratcliffe says the company's private clients are largely split between young professionals and the more established, wealthier clients, so it has been developing a tech-based solution for a younger and less-affluent end of its business.

He adds that PCH's primary focus is always on the multi-family office client. However, the firm has been developing a tech solution to offer this younger segment of clients a tech touch point, which is expected to launch later this year.

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