EXCLUSIVE: Heartwood's Simon Lough seeks private bankers wanting a 'change of scenery'

thewealthnet, 24th June, 2009

Integrating financial planning and investment management may be in vogue among wealth managers at present, but a truly bilateral offering has always been Heartwood Wealth Management's bread and butter.

"Firms that start to build a financial planning capability now will take years to get it working properly," chief executive Simon Lough maintains. One of the main problems is cultural. "It takes a while to broaden people's focus, to reorient tax experts and people from accountancy firms to work outside their specialist environments."

Heartwood was founded by David Lough in 1988, out of a union with Tunbridge Wells solicitors firm Cripps Harries Hall. David Lough, an investment banker, identified a need for wealthy City clients to have a single manager to look after both their investment and wealth structuring needs. The elder Lough, now chairman, handed over the CEO reins to his brother Simon, also with a background in investment banking, last November.

"I think one of the good qualities of investment bankers, not much discussed these days, is their 'can do, will do' mentality," says Lough. It has also given Heartwood an excellent financial contact book. Of the firm's around 1,400-strong client base, it boasts 130 senior City professionals, as well as 25 FTSE 100 directors.

The City clientele is one reason behind the firm's shift in emphasis from its Tunbridge Wells origins to its Covent Garden, London base, where it now sees the vast majority of its clients, and where its entire investment team and a quarter of its staff are based.

Teamwork is one of the firm's cornerstones, and something that Lough strives to foster through the firm's remuneration. "Everyone at Heartwood has to be comfortable sharing information and working together, and we have reward systems to reflect that. Our discretionary bonus scheme takes into account not only 'hard' performance but also 'soft' behavioural competencies."

Equity options also help attract, retain and motivate staff at Heartwood, which is "almost 95 percent" management and staff-owned, according to Lough. "Over 75 percent of the staff here have shares in the business. The equity offering is very important for attracting senior staff. We also have a share incentive plan (SIP) to encourage staff to take a stake in the firm."

Lough has put his money where his mouth is with the staffing at Heartwood. "Many firms pay lip-service to how important their employees are to the business, but for us it's absolutely crucial." Last month Heartwood hired Bernard Charles, formerly HR portfolio head at Standard Bank, and elevated him to the executive committee. "We're a small firm, and it's unusual to have such a well-developed HR function, let alone for the head to be part of the senior management team."

Also central to the Heartwood business model is a "disciplined and centralised investment process, run by top people," and applied universally across all its clients. The Heartwood process, as Lough explains, is based on multi-asset allocation and less on rigorous stock-picking, and is centred around six main strategies, from 'cautious' through to the riskier 'growth' end of the spectrum. Last year the firm stopped offering direct equity portfolios.

"Once you have the investment process in place, you can start tailoring it, as we do. But if you're not disciplined, results will disappoint. Of course, clients are much more understanding now of the transparency and due process we apply. For us, you buy into the Heartwood investment process, you don't buy into the individual manager. In the institutional business that would be an unimaginable thing to do, and for us it's the same on the private client side."

A priority for Heartwood has been refining its investment management proposition under Noland Carter, an industry veteran and former CIO at Rothschild Private Bank & Trust, and one of many big 'names' to join the firm in the last eighteen months.

"For a long time, we led with the wealth structuring side, and clients would say, 'Yes, run my money too.' Then we made a conscious decision that each business should stand on its own two feet. Our business director Hugh [Tottenham] has been brilliant. We're starting to win good mandates from charities and HNWs.

"Of course, we still get a very high proportion of our business from client referrals - at least 80 percent. But our pipeline now is healthier than it's ever been. And our average client portfolio - around £578,000 at present - is rising. Most clients coming in now have between £1-10 million."

Unsurprisingly, the firm's biggest growth area in client assets (around £100 million net for the year to end-April) has been within the 'cautious' strategy. "One of the biggest challenges for the industry will be getting clients to take judicious risk again," believes Lough. "But with people living longer they need to take a longer-term view and that will include a greater allocation to equities."

Recently, the firm has been increasing its exposure to ETFs and moving from fund-of-hedge-funds allocations to isolate more single strategy funds. "The ETF move is the bigger one," affirms Lough. "At the start of a recovery, be that later this year or early next, beta is rewarded. And you don't need to pay 2 plus 20 percent in fees for beta."

Although Heartwood has taken on the investment management mandate for an IFA firm in Tunbridge Wells, and Lough admits it is "something they could replicate," contrary to much of the market chatter, he doesn't see outsourcing in this field as a big new opportunity.

"There's been lots of talk, especially with the upcoming RDR, about IFAs looking to hand over their IM to independent managers, but I think there's more talk than opportunities, certainly at the moment."

The same is true for M&A activity within the wealth management sphere, Lough believes. "You can't build a growth strategy just around acquisitions, and it's been remarkable how little activity there's been. The wealth management model has produced good annuity revenues, it's not been enormously loss-making, so the opportunities just don't seem to be there."

Lough's expansion plan centres, as he is keen to stress, round finding good people. Heartwood has added four senior names in the last eighteen months: HR director Bernard Charles from Standard Bank; business development director Hugh Tottenham from GAM former head international distribution at BNY Mellon Asset Management, Guy Hudson; and Noland Carter, the former global CIO of Rothschild Private Banking and Trust. And hiring good individuals, or small teams with excellent client contacts is the firm's current growth strategy.

"We've appointed headhunters and we're looking to take on people, perhaps from the larger institutions, with the ability to find new funds and develop business. Private bankers looking for a change of scenery and to move away from selling products. People who are interested in the employee owner culture. Guy [Hudson] had just the right background: in one of the big players, with international experience, I always think that adds something."

"We're not going for break-neck expansion here," he adds. "It's not a get-rich-quick business." But at least at Heartwood, it's been a stable one. "Private clients are hard-won, but intensely loyal. Our client losses to competition last year were less than 1 percent of assets under management, and part of that was probably closing the direct equity portfolios."

No wonder Lough, in his own words, found "little fundamental to change" when he took over the reins last year.