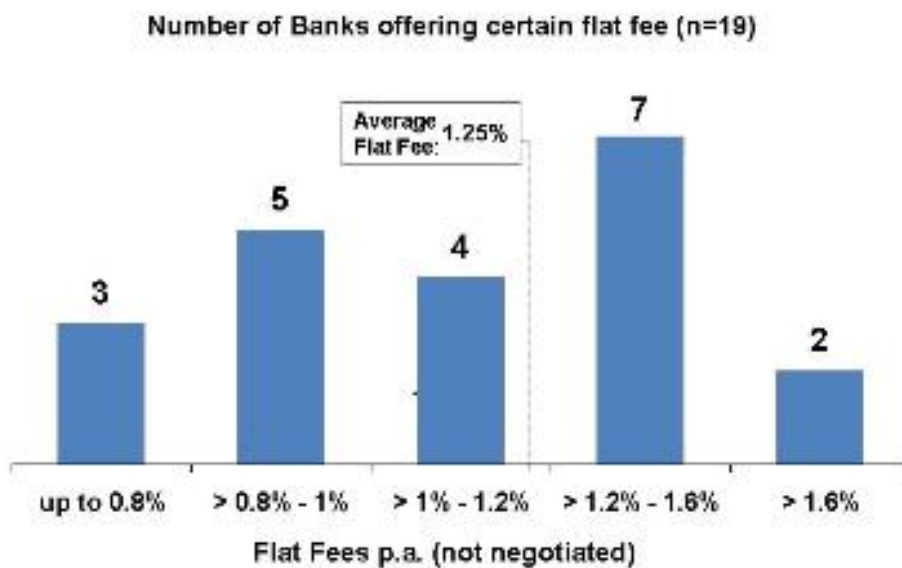


Wealth: Results of of Private Banking Survey

Costs are too High and too Hidden

Nov. 25, 2009

Flat Fees for Private Banking Show Wide Variance



Source: MyPrivateBanking.com

One major goal of our survey was to uncover the total costs of wealth management the client has to pay, that for two reasons are widely underestimated by clients: Firstly, the official fees are mostly in the range of 1% to 2% per year and look rather small. However, over the years they add-up and will cut your return by 30 to

40% after a decade. Secondly, besides the visible stated fees clients have to pay fees for managed investment products in their portfolio such as mutual or hedge funds. Clients are seldom aware of these costs and do not take them into account when assessing their total costs of wealth management.

What we liked overall: Precise fees and openness for negotiations

- Precise fees: Half of the interviewed banks gave a precise quote and another five banks stated a flat fee plus ticket fee per transactions. We would prefer a clear cut offer without ticket fees. However, we liked that three-quarter of the banks came out with a single number the client can plan with.
- Openness for negotiation: Without even asking more than half of the banks

signalled the willingness to reduce their list price. We did not follow up on the signals, but think it is fair to assume that clients could easily negotiate a reduction of 10% to 20%.

- Explanations for managed products: The vast majority of managed products does not offset their management fees by a superior performance. Of course the use of managed products can be justified if a fund is the only way to invest in an illiquid market. We liked that several banks included their reasoning for suggesting a managed vehicle in their proposal. It would have been even better if they would include the yearly costs of using them as well.

What we did not like overall: Intransparency and expensive products

- Deceptive packaging: From the seven banks scoring highest for offering a low flat fee six had a far above average share of managed funds in their suggested portfolio. This is a somewhat deceptive strategy to suggest the client he has a very price-competitive offer. However, due to the high share of hidden costs he often pays more than with a higher flat fee, but less costly products in the proposal.
- Costs as "Performance-Killer": Low fees and high hidden costs are deceptive and not client friendly. But it can get worse: A stunning number of five banks scored very low on both dimensions, pushing the total costs in the range of up to 4% per year. Worst case was a huge international bank asking for a management fee of close two percent a year and suggesting a portfolio with an investment of 85% in managed products. This comprised mostly of funds issued by the bank itself. A real performance killer.
- Mediocre Funds instead of ETFs: The majority of funds we analyzed in the suggested portfolios could be easily substituted by ETFs, cutting the yearly costs by about a percentage point a year. This substitution would not hurt the performance. In fact often the index benchmark performed better than the funds.
- Intransparent proposals: A stunning 90% of the banks did not provide any information on the costs of the suggested managed products. Many not even included an ISIN (International Securities Identification Number) of the vehicle to allow a client to easier find information on the fund. Only one out of twenty surveyed banks included in the appendix a description of all proposed managed funds, including the annual management fees.
- Products as "black-box": Three of the interviewed banks did not disclose the products they actually plan to use. Instead they offered "black boxes", labelled

with fancy names like "Core" or "Satellite"-Portfolio. For each the client receives a long list of asset classes and general investment vehicles that could be used at the discretion of the management. No detailed information was provided on the managed products used. The share of investments in managed products was missing as well. Overall this is a "wild card" to generate extra costs for the client.