



Private Banking and Wealth Management
Professors Alan Rappaport and Lex Zaharoff
Thursdays, 6:00 – 9:00 pm

Fall, 2013 (II)
B40 3120.10
3-110

Course Description

This is a case-based mini-course intended to provide an in-depth conceptual and practical guide to domestic and international wealth management for high net worth individuals and families who now control directly or indirectly a majority of the world's financial assets. The global market for wealth management has grown rapidly in recent decades and is likely to continue to be one of the most dynamic dimensions of the financial services sector, even as growth shifts location to new areas of wealth accumulation, notably Asia-Pacific, parts of Latin America, Russia and the Middle East. Besides growth, private banking remains one of the most valuable franchises of the global financial services industry, based on key client relationships, creativity in product development, and earnings stability. The course provides valuable frameworks from three distinct perspectives: the wealthy individual, the private banker/client advisor and the wealth management firm.

Course Requirements

Students taking this course should have successfully completed the Foundations of Finance course as well as the Economics MBA core course. Students are required to complete the assigned readings before coming to class, and be prepared to discuss the assigned cases. There will be a final examination during the last session of the course.

Course Material

All course material and cases are posted on NYU Classes. Copies of PowerPoint presentations will be posted on NYU Classes following class discussion.

Grading

Grading: Grading weights are as follows – Final exam 50%; Class participation and case briefs 50%. The full range of grades will be awarded, and the Stern Finance Department's grading curve will be applied.

Course Outline

Session 1 – 7 November 2013

Private Banking: Defining the industry, market segmentation, service offering, and competition

Private banking: from the perspective of clients, employees and firms.

Where does private banking and wealth management fit in the global financial architecture, including key estimates of global wealth allocation and patterns of growth. Overview of the competitive playing field. The class will provide a contextual analysis on how private bankers play a critical role in helping clients optimize risk-adjusted returns and accessing capital markets to connect users of capital with the market. Tangible insight into the day-to-day role of the private banker as a problem solver, identifying and addressing the unique and often unconventional issues of paramount importance to wealthy individuals and families

Industry trends and the behaviors of the wealthy

The private banking industry – and the world of the wealthy - has been shrouded in secrecy for generations. Having set the context for the role of wealth management in the global financial service industry, the class will then focus on specific issues surrounding wealth creation, management and destruction. Students in the class should be prepared to present an example of first generation wealth creation. The discussion will highlight the role of investment risk and leverage in the development of wealth, the changing nature of wealth creation opportunities, and the implications for wealth creation in the 21st century.

There is a focus as well on the perspective of a demanding private banking client and his experience over a long period of time. What does the wealthy client expect? How does he or she benchmark private banking performance across the entire value chain?

Reading: Ingo Walter, "Economic Drivers of Structural Change in the Global Financial Services Industry," *Long Range Planning*, 42 (2009) 588-613.

Guest: Roy Smith, Professor, NYU Stern School & Former Partner, Goldman Sachs

Session 2 – 14 November 2013

Setting the Framework and Serving the Wealthy Family

Understanding Global Capital Flows

Building off the foundation set in the first session, this class will review the structural architecture of the global financial service industry and the role of private banking as an essential component of global capital flows. The class will address the on-shore and off-shore elements of the industry and set the stage for better understanding the elements of competitive distinction.

Understanding the Wealthy Family

The Garnett case-based discussion focuses on the social, financial, and emotional dimensions of wealthy families. The discussion will provide a framework to assist families in establishing clear financial objectives, requirements to meet lifestyle (including retirement issues), charitable giving and estate objectives. Issues of wealth creation, the role of leverage, financial reporting and the importance of asset allocation and location. The session will provide insight into the complexity of structures and challenges of multi-generational wealth. The class will then focus on private banking opportunities and critical elements of a successful strategy to serve clients, reviewing the types of services, professionals and team structure.

Case preparation: The Garnett Family (A)

Guest: Professor Ingo Walter, NYU Stern School

Session 3: 21 November 2013

Key Elements of Risk in the Business Model

Risk Dynamics and Offshore Private Banking

Key generic elements of risk management in international and offshore private banking. Going beyond conventional issues of market, credit and liquidity risk, the focus is on sovereign risk, operational risk and reputational risk. This includes legal and compliance risk. Inter-linkages among risk domains from the perspective of the client as well as the perspective of the private banking organization.

The nature and dynamics of private banking for clients outside their countries of residence. Use and misuse of financial confidentiality. Regulatory issues and reputational risk faced by internationally engaged private bankers and asset managers including FATF, money laundering and anticorruption measures, and tax enforcement.

The Credit Dimension of Private Banking

The use of credit as a competitive element in private banking relationships, with emphasis of associated risks of bankruptcy, liquidity and market shocks. The session will focus on the type of credit available to private clients, structure, terms, pricing and purpose. The session will explore the motivations of both borrower and lender, and identify the role of the private banker in facilitating the creation of the credit facility.

Reading: Ingo Walter, "Use and Misuse of Financial Secrecy in Global Banking," in H. Kent Baker and John Nofziger (eds), *Socially Responsible Finance and Investing* (New York: John Wiley & Sons, 2012).

Case preparation: The Jersey Project

Guest: Kevin Moyer, Credit Solutions Executive, Bank of America

Session 4 – 5 December 2013

Investments: Strategy, Allocation, Concentration, Manager Selection, Portfolio Oversight, Rebalancing, Tactics

This class will focus on the creation and transfer of nominal and real wealth, and the challenges of maintaining wealth through multiple generations. We will explore the investment solutions available to wealthy families. It will start by discussing customized, investment strategies and then focus on optimal advisory roles. Starting with the creation of an Investment Policy Statement that captures the elements of a family's comprehensive investment strategy, this class will review the essential elements of asset allocation, concentration and diversification. We will discuss various implementation strategies, focusing on both the type of investment solutions and the role of the advisors.

What is the role of investment consultants, brokers and family office investment officers? Is there a preference (from the perspective of the firm, the client and the private banker) for a client-directed relationship or one where full discretion is given to the firm? This session is designed to provide a framework for the delivery of optimum investment solutions and the type of service provider most appropriate for the family.

Reading: The Yale Endowment, 2012; Revising the "4% Spending Rule", Vanguard.

Case assignment: The Garnett Family (B) and (C).

Prepare only the questions at the end of Garnett C

Guests: Senior investment professionals. Past guests have included a JP Morgan Private Bank Managing Director and a former CIO of Credit Suisse Private Bank (US)

Session 5: 12 December 2013

Competitive performance in private banking

Each type of firm in the private banking industry offers certain advantages to clients and needs to balance the often-conflicting needs of its owners, employees and clients. This class will identify critical priorities for each of the firm's constituents and explore, in detail, the implications of the trade-offs. The question for the class will be to identify the best features of the modern private bank – structure, model, market, products, and compensation. Making a difference. For the firm and for its clients.

Scale, scope and organizational culture in financial services with a focus on private banking. Is bigger better? Is broader better? Does it matter whether private banking is part of a listed financial firm, a partnership, a cooperative or other form of organization? Discussion of reputational capital and its impact on client relationships, competitiveness and assets under management.

What factors seem to separate successful from less successful firms in servicing wealthy clients? What are the appropriate metrics for assessing competitive performance? Economies of scale and scope in private banking, including advantages and disadvantages of stand-alone firms vs. private banking units of financial conglomerates. The class will then engage a guest panel of industry experts and review competitive strengths and weaknesses from the perspective of senior private bankers themselves.

Assignment: Competitive distinction exercise (instructions to be provided).

Guest panel: Senior executives from a variety of firms. Past panelists included representatives from UBS Private Wealth Management, JP Morgan Private Bank, and Wilmington Trust Company.

Session 6: 19 December 2013

First Half of Class: Management Imperatives

The first half of this class will consider critical management issues in running successful private banking businesses. These include selection, recruitment, training and retention of key talent and fostering client coverage and execution teams, as well as remuneration issues.

Case assignment: The Call

Second Half of Class: Final Examination

Instructors

Alan H. Rappaport is *Adjunct Professor* of the Stern School of Business, New York University and *Advisory Director, Roundtable Investment Partners LLC*. He joined this private investment firm in 2009. Previously, he served as Chairman and as President of the Bank of America's Private Bank overseeing one of the world's largest wealth management businesses and the nation's largest trust bank. Mr. Rappaport served in a number of capacities for the Bank, including its Management and Operating Committee. In addition, Mr. Rappaport served as New York President, where he oversaw market activity and represented the Bank in public policy, philanthropic and sponsorship activity. Prior to joining Bank of America, Mr. Rappaport was a Partner at The Beacon Group, a private investment and strategic advisory firm where he was responsible for the wealth management business. The Chase Manhattan Bank acquired the Beacon Group in July 2000. Mr. Rappaport served as Managing Director of Investments at the Chase Private Bank.

Prior to joining The Beacon Group, Mr. Rappaport was Managing Director of the Asset Management Division of CIBC Oppenheimer. In this capacity, he was responsible for this \$12 billion investment business. He created and served as chairman of numerous investment funds including many New York Stock Exchange listed investment companies as well as pioneering work in the emerging markets. During his seventeen-year tenure, he was involved in a broad range of investment strategies and served on a number of committees, including the Executive Committee.

Mr. Rappaport serves on the boards of the NYU Langone Medical Center and the American Museum of Natural History and is a member of the Council of Foreign Relations. He is a member of the Allianz Multifund Board, a family of registered investment funds. He has served as the National Co-Chair of the Parents Committee of Duke University, the chairman of the board of GuideStar.org as well as served on the boards of the Partnership for New York City and the New York City Investment Fund. Mr. Rappaport is an MBA graduate of the Stanford Business School and holds a B.A. degree *magna cum laude* from Harvard College. He is a native of Martha's Vineyard,

Massachusetts and lives with his family in Bronxville, New York.

Alexander “Lex” Zaharoff is *Adjunct Professor* of the Stern School of Business, New York University and *Managing Director and Head of the Investment Lab for Citibank N.A.*. He joined Citi in 2011 from Carleon Capital Partners, a private multi-family office focused on serving the needs of ultra high net worth families. Previously, he founded his own firm, LZ Investment Advisors, LLC, a registered investment advisor.

Prior to his own firm, Mr. Zaharoff was Head of Investment Strategies at HSBC’s Private Bank – Americas.

From 2005 to 2008, Mr. Zaharoff was a Managing Director at Bank of America, initially as Advice and Solutions Executive for their Family Wealth Advisory business and then as Senior Investment Officer for U.S. Trust’s Multi-Family Office.

Prior to joining Bank of America, Mr. Zaharoff had a twenty three year career at JPMorgan’s Private Bank including global responsibility for product development and advisory services. In 1995, he created the Advice Lab, a think tank that brought together a team of experts to solve complex investment issues for some of the world’s wealthiest families. With his colleague, Dr. Ashvin Chhabra, Mr Zaharoff was granted a patent on computing probabilities of attaining multiple financial goals.

He has published papers in the Journal of Wealth Management including, as co-author with Ashvin Chhabra and Ravindra Koneru: *Modern Portfolio Theory's Third Rail: Achieving Wealth Mobility Through Idiosyncratic Risk*. (Summer 2011), and *Creating a Goal-Based Wealth Allocation Process* (Winter 2008).

A Chartered Financial Analyst, Mr. Zaharoff is a MBA graduate of the Harvard Business School and holds a B.S. in Engineering degree from Princeton University. He is a native New Yorker and lives with his family in Weston, CT.