



Private Investing and Wealth Management

FINC-GB.3357.10

Professors Alan Rappaport, Ingo Walter and Lex Zaharoff

Fall, 2017, Th 6-9 pm

Course Description

This is a case-based course intended to provide an in-depth conceptual and practical guide to domestic and international wealth management for high net worth individuals and families. 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 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.

Course Requirements

Students taking this course should have successfully completed the Foundations of Finance course as well as the core Economics MBA core course – Firms and Markets - or its equivalent. Students are required to complete the assigned readings before coming to class, submit case write-ups 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 weights:

- 20% Case briefs
- 20% Competitive Distinction exercise
- 20% Class participation
- 40% Final exam

The full range of grades will be awarded, and the Stern Finance Department's grading curve will be applied.

Course Outline

Session 1) Introduction to the world of the wealthy Sept 28

- Admin & introductions
- Financial Service Architecture

Session 2) Understanding Wealth Oct 5

- Role of a Private Banker; Product Suite
- World of the Wealthy : Creation and destruction
- **Case: Garnett A– Defining a Client’s Goals**

Session 3) Wealth Monetization and Estate Strategies Oct 12

- Monetization strategies
- Basics of trusts
- **Case: Garnett B**

Session 4) Advising the Wealthy: Liquidity and Leverage Oct 19

- Understanding Credit – First Republic
- Credit – The private client as source and use of debt
- **Case: The Jersey Project**

Session 5) International Private Banking Oct. 26

- Evolution of private banking worldwide
- Development of offshore and onshore centers in Europe, Asia and “frontier” markets
- **Case: UBS Private Banking**

Session 6) The Global Private Banking Industry Structure Nov 2

- Industry Participants
- Family Offices
- Banker/Advisor Profitability and Operating models
- **Case: The Decision**

Session 7) Investment Strategy Nov 9

- Basics of private client investment strategy.
- Setting a framework
- Lessons from Yale
- **Case: Garnett C**

Session 8) Advising the Wealthy: Estate and Philanthropic Strategy **Nov 16**

- Philanthropy: Trends; private foundations, donor advised funds, philanthropic strategies, impact investing
- Basics of Estate and Philanthropic Strategy.
- **Case: Lund**

Session 9) Investment implementation **Nov 30**

- The case for active vs. passive
- Portfolio construction.
- Tactical asset allocation
- Managing conflicts: Fees and taxes
- Selecting active managers
- **Case: Garnett D / E – Creating and Evaluating the Client’s Portfolio**

Session 10) Evaluating Talent **Dec 7**

- Designing compensation structures
- Attracting and retaining talent
- The ideal private banker
- Skills and career path
- **Case: The Partner**

Session 11) Competitive Performance in Global Private Banking **Dec 14**

- Review of course for final
- **Case: The Call**

Session 12) Course Integration **Dec 21**

- Class discussion Competitor Analysis Project
- Final exam

The Instructors

Alan H. Rappaport is Adjunct Professor of the Stern School of Business, New York University, a Lecturer at the Stanford Graduate School of Business and Advisory Director, Roundtable Investment Partners LLC. He joined this private investment firm in 2009. In 2015, Mr. Rappaport served as a Visiting Professor of Finance at INSEAD. 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 board of Overseers of the NYU Langone Medical Center, the boards American Museum of Natural History, the Sheriff's Meadow Foundation and is a member of the Council of Foreign Relations. He is a member of the boards of the Allianz Global Investor and PIMCO funds, two families 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.

Ingo Walter is the Seymour Milstein Professor of Finance, Corporate Governance and Ethics at the Stern School of Business, New York University. He earned received his A.B. in Economics summa cum laude in 1962 and his and M.S. degree in Business Economics in 1963 from Lehigh University, and his Ph.D. degree in 1966 from New York University. He has been on the faculty at New York University since 1970.

From 1971 to 1979 Prof. Walter was Vice Dean for Academic Affairs at the Stern School of Business and subsequently served a number of terms as Chair of International Business and Chair of Finance, as well

as Director of the New York University Salomon Center for the Study of Financial Institutions from 1990 to 2003, Director of the Stern Global Business Institute from 2003 to 2006, and Dean of the Faculty from 2008 to 2012.

Prof. Walter has had visiting professorial appointments at the Free University of Berlin, University of Mannheim, University of Zurich, University of Basel, the Institute for Southeast Asian Studies in Singapore, IESE in Spain and various other academic and research institutions. He also held a joint appointment as Professor of International Management from 1986 to 2005 and remains a Visiting Professor at INSEAD in Fontainebleau, France and in Singapore.

His principal areas of academic and consulting activity include international finance and banking. He has published numerous papers in professional journals and is the author, co-author or editor of 26 books, most recently *Governing the Modern Corporation* (New York: Oxford University Press, 2006), *Regulating Wall Street* (New York: John Wiley & Sons, 2011) and the third edition of *Global Banking* (New York: Oxford University Press, 2012). He has served as a consultant to various corporations, banks, government agencies and international institutions, and has held a number of board memberships.

Alexander “Lex” Zaharoff is Adjunct Professor of Finance at Stern and Partner and Senior Wealth Advisor, HTG Investment Advisors, Inc., a New Canaan, CT based investment advisory firm.

He retired from Citibank N.A. as Managing Director and Head of the Private Bank’s Investment Lab having joined Citi in 2011 from Carleon Capital Partners, a private firm 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.

Mr. Zaharoff was Head of Investment Strategies at HSBC’s Private Bank – Americas before founding his own firm, and from 2005 to 2008 served as 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.

Annex – Sample Topic Coverage

Students interested in greater detail on “what’s in the box” may want to peruse the discussion of some of the topics covered in the course, presented below. We use throughout the term Private Banking in its broadest sense, encompassing the entire high-net-worth wealth management industry. Similarly, the term “private banker” includes all professionals engaged in assisting wealthy families with their wealth, including financial advisors, family office personnel, and other advisors.

The Industry

The course opens with a study of who controls the world’s financial wealth and where are they. It provides a contextual analysis on how private bankers play a critical role in helping clients optimize risk-adjusted returns and access capital markets to connect users of capital with the market. Tangible insights are provided 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.

The discussion then focuses on major industry trends, how the product and service suite has evolved, and how wealth management firms have changed their service models and pricing methodology to keep up with the changing dynamics of wealth.

One session focuses on the key generic elements of international and offshore private banking: the nature and dynamics of private banking for clients outside their countries of residence and the 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 are discussed.

The Client

This topic focuses on the creation of nominal and real wealth, and the challenges of maintaining wealth through multiple generations. The discussion will deal with 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. Students will be expected to identify an example of “first generation” wealth creation and talk through the structural implications. The discussion will also consider the critical elements that give rise to financial success and the implications for its management and disposition.

The case-based analysis considers 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 are studied. The analysis provides insight into the complexity of structures and challenges of multi-generational wealth. It then considers private banking opportunities and critical elements of a successful strategy to serve clients, reviewing the types of services, professionals and team structure.

We review in detail the comprehensive elements of the product offering of wealth management firms. The class will organize the service offering around its core components – managing liquidity through banking products, the extension of credit, delivering of fiduciary services, the broad range of investment solutions, administrative support, philanthropic advisory and administration.

One session discusses 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.

Another session will then focus on a case-based discussion on a “trust gone wrong”, focusing on the family’s motivation in the creation of a trust, its choice of trust fiduciary and elements of trust management.

Investing

This topic focuses in depth on the investment solutions available to wealthy families. We 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, we will review the essential elements of asset allocation, concentration and diversification. The discussion reviews various implementation strategies, focusing on both the type of investment solutions and the role of the advisors. It contrasts various types of investment programs, including self-directed investments, the role of investment consultants, brokers and family office investment officers. This discussion is designed to provide a framework for the delivery of optimal investment solutions and the type of service provider most appropriate for the family.

Elements of Competitive Distinction

Each type of firm in the private wealth management industry offers certain advantages to clients and needs to balance the often-conflicting needs of its owners, employees and clients. This discussion identifies critical priorities for each of the firm’s constituents and explore, in detail, the implications of the trade-offs. The question is to identify the best features of the modern private bank – structure, model, market, products, and compensation. It will explore how best to make a difference - for the firm and for its clients.

What factors seem to separate successful from less successful firms in service 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.

At the conclusion of the course, students will better understand and be more effective in advising wealthy families as well as the principal advantages and challenges of each of the types of competitors in the global wealth management industry.