



Global Wealth Management and Private Banking
Professors Ingo Walter and Lex Zaharoff

FINC-GB.3357.30
Fall, 2019 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% Session 12 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.

Teaching Responsibility

Leadership of each class session is shared between Ingo Walter (IW) and Lex Zaharoff (LZ). Guest speakers will be invited from time to time as indicated in the outline. Prof. Alan Rappaport serving as anchor guest speaker.

COURSE OUTLINE

Session 1) Introduction to the world of the wealthy

Sept 19 (IW & LZ)

- Admin & introductions
- Role of a Private Banker
- The Product Suite
- Anchor guest: Alan Rappaport.

Session 2) Understanding Wealth

Sept 26 (LZ)

- Financial Service Architecture
- World of the Wealthy : Creation and destruction
- **Case: Garnett A – Defining a Client’s Goals**
- Anchor guest: Alan Rappaport

Session 3) Wealth Monetization and Estate Strategies

Oct 3 (LZ & IW)

- Monetization strategies
- Basics of trusts
- **Case: Garnett B**
- Guest: Chris Bitterly, Citigroup

Session 4) Advising the Wealthy: Liquidity and Leverage

Oct 10 (LZ & IW)

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

Session 5) International Private Banking

Oct 17 (IW & LZ)

- Evolution and patterns of private banking worldwide
- Development of offshore and onshore wealth management centers in Europe
- Asia and “frontier” markets
- Know-your client issues in a world of cross-border flows
- AML and KYC in global wealth management
- Implications of blockchains and crypto-currencies
- **Case: Banque Alpha**

Session 5) Private Banking Industry Structure

Oct 24 (IW & LZ)

- Industry Participants
- Family Offices
- Banker/Advisor Profitability and Operating models
- **Case: The Choice**
- Anchor guest: Alan Rappaport

Session 7) Investment Strategy

Oct 31 (LZ & IW)

- Basics of private client investment strategy.
- Lessons from Yale
- **Case: Garnett C**
- Guest: Dr. Ashvin Chhabra

Session 8) Advising the Wealthy: Estate and Philanthropic Strategy

Nov 7 (IW & LZ)

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

Session 9) Investment Implementation

Nov 14 (LZ & IW)

- The case for active vs. passive
- Portfolio construction.
- Tactical asset allocation
- Managing conflicts: Fees and taxes
- Selecting active managers
- **Case: Garnett D & E – Creating & Evaluating the Client's Portfolio**
- Guests: JP Morgan Chase Coverage Team – Financial Sponsors

Session 10) Evaluating Talent

Nov 21 (IW & LZ)

- Designing compensation structures
- Attracting and retaining talent
- The ideal private banker
- Skills and career path
- **Case: The Partner**
- Guest: Josh Heimann, UBS Wealth Management

Session 11) Competitive Strategies in Global Private Banking**Dec 5 (LZ & IW)**

- Designing a competitive wealth management firm
- Application of the C-A-P model
- Importance of scale and scope
- Strategic execution
- Class discussion of competitive analysis project
- Course integration

Session 12) Attracting and Retaining Talent**Dec 12 (IW & LZ)**

- **Case: The Call**
Anchor guest: Alan Rappaport
- Final exam

Supplemental Reading:

For greater depth in the various topics covered in this course students may want to purchase Jason Butler, *Wealth Management* (London: Pearson, 2015).

Instructors:

Ingo Walter is the Seymour Milstein Professor of Finance, Corporate Governance and Ethics Emeritus at the Stern School of Business, New York University. He received an A.B. in Economics *summa cum laude* in 1962 and an M.S. degree in Business Economics in 1963 from Lehigh University, and a 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 and subsequently served a number of terms as Chair of International Business and Chair of Finance, 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 held 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, University of Western Australia and various other academic and research institutions. He held a joint appointment as Professor of International Management from 1986 to 2005 and remains a Visiting Professor at INSEAD in Fontainebleau, France and 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 27 books, most recently *The Infrastructure Finance Challenge* (2016). He has been a consultant to various corporations, banks, government agencies and international

institutions,. He has served on a number of corporate, investment fund and nonprofit boards, most recently (since 2017) the Board of Directors of the National Bureau of Economic Research.

Alexander “Lex” Zaharoff is *Adjunct Professor* of the Stern School of Business, New York University and is a Partner at HTG Investment Advisors Inc. in New Canaan, Connecticut. In 2014 he retired as *Managing Director and Head of the Investment Lab for Citibank N.A.* His thirty four year career in private wealth management included Carleon Capital Partners, a private multi-family office focused on serving the needs of ultra high net worth families and 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.

Anchor Guest Speaker

Alan H. Rappaport co-founded this course and has also served as a *Lecturer* at the Graduate School of Business, Stanford University. He is an *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. He created and served as chairman of numerous investment funds. 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 has served on the boards of the NYU Langone Medical Center and the American Museum of Natural History, as chairman of the board of GuideStar.org, and National Co-Chair of the Parents Committee of Duke University. He currently serves on the boards of the Allianz and PIMCO multi-fund complexes as well as Victory Capital Management. He is a member of the Council of Foreign Relations.

Mr. Rappaport is an MBA graduate and Arjay Miller Scholar of the Graduate School of Business, Stanford University and holds a B.A degree from Harvard College.

Annex – Course Coverage

We use 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 financial affairs, 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 they are located. 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 banking 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.