



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

**FINC-GB.3357.30**  
**Fall, 2021 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.

**Session 1) Introduction to the world of the wealthy**

**Sept 23 (LZ)**

- Admin & introductions
- Role of a Private Banker
- The Product Suite

**Session 2) Understanding Wealth**

**Sept 30 (IW and LZ)**

- Global Wealth Distribution
- Financial Service Architecture
- World of the Wealthy: Creation and Destruction
- **Case: Garnett A – Defining a Client’s Goals**

**Session 3) Wealth Monetization and Estate Strategies**

**Oct 07 (LZ & IW)**

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

**Session 4) Advising the Wealthy: Liquidity and Leverage**

**Oct 14 (LZ & IW)**

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

**Session 5) Private Banking Industry Structure**

**Oct 21 (IW & LZ)**

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

**Session 6) International Private Banking**

**Oct 28 (IW)**

- 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
- Crypto-currencies & wealth management
- **Case: Banque Alpha**

**Session 7) Investment Strategy**

**Nov 04 (LZ & IW)**

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

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

**Nov 11 (IW & LZ)**

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

**Session 9) Investment Implementation**

**Nov 18 (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**

**Session 10) Evaluating Talent**

**Dec 03 (AR & IW)**

- 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 02 (LZ & IW)**

- Designing compensation structures
- Retaining talent
- **Case: The Call**

**Session 12) Course Integration**

**Dec 09 (IW & LZ)**

- Class discussion Competitor Analysis Project
- 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 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 *Bridging the Gaps: Public Pension Funds and Infrastructure Finance* (2019). 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.

## **Annex – A Note on 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.