SMU-21-0026

HP WEALTH MANAGEMENT – PIONEERING EXTERNAL ASSET MANAGEMENT IN SINGAPORE

In April 2020, Urs Brutsch, the co-founder of HP Wealth Management (HPWM), a Singapore based external asset manager (EAM), was delighted as he reviewed the company's continued robust financial performance. In just eleven years since its inception in 2009, HPWM had grown to become one of the largest EAMs in Singapore, with 28 employees and assets under management (AUM) of S$2.5 billion (US$1.9 billion[1]).

Brutsch, a private banking veteran of more than two decades, and Michael Foo, a long-time portfolio manager in the investment industry, had set up HPWM in 2009, in the wake of the Great Recession of 2008. At that time, trust in financial institutions was at an all-time low with the debacle of Lehman Brothers and the subprime financial crisis, brought about by the collapse of collateralised debt obligations. Private banking was in a nascent state of development in Singapore and 'trust'- the very fabric of the banking system, had been destroyed with bitter accusations by local investors of the mis-selling of Lehman-linked products, such as credit-linked notes called Lehman mini bonds, by banks in Singapore[2,3]. The Lehman-linked products became worthless when Lehman Brothers collapsed on 15th September 2008, resulting in lawsuits filed by investors. In response, the Monetary Authority of Singapore (MAS) investigated the allegations and concluded, in their report dated 7th July 2009, that there were various forms of non-compliance by the 10 financial institutions (FIs) that sold investors structured notes linked to Lehman Brothers[45]. MAS subsequently imposed bans on the distribution of structured notes by the 10 FIs over a six-month to two-year window and issued formal directions for them to adopt measures that rectified all the weaknesses identified by the investigations for the provision of financial advisory services across all investment products. The 10 FIs were unable to distribute structured notes until MAS was satisfied with the measures in place.

It was against such an adverse backdrop of investment advisory, that HPWM was established. The firm forayed into the market when EAMs were almost unheard of in Singapore; it also had humble beginnings, starting with only three employees. Given the circumstances in which it was established, the start-up's remarkable growth over the decade had emerged as a sweet surprise. Brutsch recalled how he had envisioned the opportunities when others did not. He wondered what existing strategies would be applicable for future growth. Furthermore, how could HPWM retain its robust growth and market leadership?

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1 US$1=S$1.32, as at February 2021. Unless otherwise mentioned, this conversion rate has been used in the case.
2 "Financial crisis politically awakens Singapore investors", November 2008, https://www.reuters.com/article/us-financial-singapore-investors-idUSTRE4A61O320081107, accessed June 2021
3 "UPDATE 1-Customers sue Singapore's DBS over investment loss", July 2009, https://www.reuters.com/article/dbs-lawsuit-idUSSIN46541320090710, accessed June 2021
4 "MAS Releases Investigation Findings on the Sale and Marketing of Structured Notes Linked to Lehman Brothers", July 2009, https://www.mas.gov.sg/news/media-releases/2009/mas-releases-investigation-findings-on-the-sale-and-marketing-of-structured-notes-linked-to-lehman-brothers , accessed June 2021
5 (Refer to **Exhibit 1** for MAS' notices and guidelines on the sale and marketing of investment products)

This case was written by Assistant Professor T. Mandy Tham, Esther Kong and Juliana Koh at the Singapore Management University. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Entrepreneurial Journey

The subprime financial crisis had served as a call to action for Brutsch for many reasons. First, he witnessed the dangers of a "sales target and commission driven" culture that incentivised product pushing at the expense of clients' interests. Brutsch believed that a different business model could be crafted where the incentives of advisors were aligned with the clients. The model had to enable advisors to promote investments, which were not only right for their clients, but also helped them to meet their own goals. The traditional private banking model had a steep revenue target for bankers that could incentivize the wrong actions by bankers to push products and services to clients at the expense of clients' interest. He believed that this was the best opportunity to "reset" the "revenue-driven" client-servicing model by breaking away as a game changer. He believed that the EAM business model was a game changer as it did not face short-term revenue target pressure and was independent of the bank. He was convinced that the independent nature of EAMs would be attractive to clients as it aligned interest of both, the banker and the client. It would also allow his firm to compete with traditional private banks as a key player in the wealth management industry.

Second, the timing was ripe to promote an investment philosophy that deeply embedded risk management in a company's DNA, even at the risk of being "boring" in its investment philosophy. Brutsch knew that roller coaster rides did not help in wealth generation if wealth preservation was non-existent. He believed that he could differentiate HPWM from the competition (i.e. private banks and other EAMs) through his investment strategies that had risk management in their DNAs.

Last but not least, he believed that as an entrepreneurial external asset manager, he would be able to enjoy greater job security and work-life balance than as a banker. Brutsch admitted,

> *This realisation had been elusive to me for more than two decades. It required a complete overhaul of one's mind-set, and was a key learning point for me.*

With these motivations in mind, Brutsch became an entrepreneur and a pioneer to help shape the EAM landscape in Singapore.

HPWM and its EAM Business Model

HPWM started operations as an EAM[6] providing bespoke investment solutions to high net worth individuals, with a simple business model that was popular in Europe and USA. The model entailed clients' choosing the custodian bank where they wanted to maintain their account and assets, either by themselves or on recommendations from HPWM. After opening the account, the clients appointed HPWM to manage their assets based on a Limited Power of Attorney (LPOA). Since the LPOA did not allow the EAM to transfer assets from the account with the custodian bank, Asian clients were more receptive to granting the LPOA (refer to **Exhibit 2** for Business Model of HPWM). HPWM would provide investment solutions through both, an advisory model and a discretionary portfolio management (DPM) model. In the advisory model, the EAM would provide investment advice and the client made the ultimate decision on whether to execute the trade based on the advice. In contrast, in the DPM model, the EAM had the discretion to decide

6 Interchangeably referred to in this case as an external asset manager (EAM).

on the asset allocation and portfolio construction, based on an investment mandate provided by the client.

As independent advisors, EAMs were able to collaborate with many custodian banks acting as the EAM's prime brokers, thereby gaining access to different capital markets, investment products and solutions offered by their panel of partner banks. Thus, the EAMs could offer an open architecture platform to the clients. This provided their clients with flexibility, as they were not restricted to a single bank. Clients could also consolidate all their trades and holdings from different custodian banks through the EAM. Moreover, EAMs did not face short-term revenue targets and were able to deliver long-term client-focused investment and wealth advisory solutions. Additionally, EAMs were also not pressured into selling in-house products (refer to **Exhibit 3** for Factors Leading to Growth in the EAM Industry)[7].

Monetization options

The business model of EAMs was essentially a tripartite contractual relationship between the client, the custodian bank and the EAM. The common revenue models under this setup were the retrocession model and management fees model.

Retrocession fees referred to the commissions paid by the banks to the EAMs as incentive fees for choosing the products and services provided by the banks. The retrocession model where the custodian bank would offer rebate on a portion of the fees to the EAM based on the client's volume of trade with the custodian bank was a revenue model used by many EAMs. The EAM and custodian bank had to agree on the percentage for splitting the trading fees, for example, 50%-50%, and the EAM either had the choice or must follow guidelines by financial regulators[8] to disclose to the clients the retrocessions received. In the retrocession fees model, there might be potential conflict of interest between EAM and the client as the EAM was incentivised to encourage the client to trade, even if the trade was not in the client's best interest. Disclosure of retrocession was mandated in certain jurisdictions in order to mitigate such conflict of interest. After mutual agreement on the rebate amount, the EAMs might choose to rebate a portion of the retrocessions to the clients, thereby lowering the net fees paid by the clients.

An alternative revenue model was the management fees model where the EAMs would manage the client's portfolio based on a discretionary mandate and charge the client an annual management fee. The DPM model allowed for greater alignment of interest between the EAM and the client, as the management fees charged to clients were not tied to the volume of trade. In addition, the DPM model was designed for long-term and incorporated risk diversification compared to a pure trading advisory model. Ultimately, it would be up to clients to decide whether to control their investment decisions by adopting an advisory model as opposed to giving a discretionary mandate to the portfolio manager.

HPWM Model

For its discretionary mandate, HPWM adopted the management fees model. However, even for its advisory model, HPWM did not adopt the retrocession fees model used by many other EAMs.

7 "External Asset Managers in Singapore and Hong Kong – addressing custodian banks' challenges on EAM service offering", https://www.synpulse.com/_Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/EAM%20Case%20Study_SG.pdf
8 For example, on 22 March 2006, the Swiss Federal Supreme Court (SFC) ruled, on the basis of Article 400(1) of the Swiss Code of Obligations ("SCO"), that retrocessions paid to an asset manager must be disclosed and returned to their clients unless otherwise expressly and validly waived by the client on a fully and truly informed basis; On 30 October 2012, the SFC held that all types of retrocessions, in particular so-called trailer fees, must be passed on to the client by asset managers. On 14 August 2018, the SFC ruled that the concealment of retrocessions received by an asset manager may constitute criminal mismanagement pursuant to Article 158(1) of the Swiss Criminal Code ("SCC"). Refer to https://www.lalive.law/10937/.

Instead, it adopted an investment advisory fees model as it believed that there was increasing willingness amongst Asian clients to pay for investment advice. Brutsch explained,

> *Many EAMs just don't think of asking their clients whether they are willing to pay for good advice. It is a myth that Asian clients do not pay for investment advice. Actually, they recognise and value quality advice very much.*
>
> *We steer well clear of non-transparent dealings such as retrocessions, which could poison the mind of advisors, whereas we want to maintain our complete objectivity, at all time. Moreover, performance fees are eschewed as such mandates can lead to a temptation to take more risk to achieve more returns.*[9]

This revenue model placed the onus on HPWM to differentiate itself from competition through its investment advisory and portfolio management capabilities. The team delivered advisory for the tactical short-term focused clients and DPM for the strategic long-term focused clients. Clients could have a combination of DPM for strategic asset allocation and advisory for tactical asset allocation and trading. The team was very process-oriented and more focused on strategic rather than tactical asset allocation, even during the pandemic, as they believed in long-term discipline in investing. This conviction allowed HPWM to differentiate its investment philosophy from competitors who were more transaction-oriented. Flip-flopping strategies in response to short-term market gyrations was not in the DNA of HPWM's culture. Being consistent and embarking on new directions only when the change made good sense in the long term gave clients peace of mind.

With a greater emphasis on strategic rather than tactical, the team at HPWM was not pressured to meet short-term sales targets and was able to focus on building long-term relationships with the clients by providing them with independent unbiased advice. With no retrocessions from the banks, HPWM's primary focus was the client's interest, un-wavered by benefits from generating transactions or turnover, and products were not recommended based on any revenue considerations. The absence of short-term targets also enabled HPWM to have an advantage over banks in terms of staff retention, which in turn brought the benefits of a more consistent service level to clients. HPWM extended its process-oriented culture to its hiring practices. It methodically ensured that new employees fit the company's cultural DNA; it believed in a cautious and disciplined investment philosophy for the company for the future and its vision for the client.

With a longer-term focus, it devoted more time to understanding client needs and designing a customised approach to satisfying client's unique needs. Moreover, the company was able to reduce costs for its clients through a transparent fee structure that ensured alignment with the client's interest. HPWM negotiated "wholesale" conditions for their clients with banks, to lower the transaction costs; the clients paid a management or advisory fee to HPWM. As of 2020, 65% of its AUM was in discretionary investment management on a management fee model, compared to 20% in discretionary portfolios in 2010.

Staying true to his investment philosophy that embedded risk management, Brutsch did not recommend leverage to his clients. If a client were to insist on leverage, the team at HPWM would first provide education on the risk of leverage and would only recommend a low level that was primarily for tactical asset allocation. According to Brutsch,

9 "Consistency and Reliability as Cornerstones of Client Centricity", June 2020, https://www.hubbis.com/article/hp-wealth-management-consistency-and-reliability-as-cornerstones-of-client-centricity, accessed June 2021.

All we have is our reputation and that makes us regard risks seriously.

Growth of HPWM

In 2012, the company achieved S$500 million (US$377 million) in AUM, and Stephane Schmid joined the company as its third business partner (refer to **Exhibit 4** for Organisational Structure of HPWM). The major trigger to its growth came in 2015, when an existing client wanted HPWM to offer services to manage their family wealth. Brutsch seized the opportunity to develop family office capabilities and HPWM began to offer multi-family office services. Brutsch reported that their sweet spot was the ultra-high net worth (UHNW) clients with assets between US$ 100 million and up to US$ 1 billion, as HPWM's family office operations provided economies of scale to the UHNW client with similar, if not better outcomes, as opposed to the client setting up his/her single-family office. The family office operations also helped HPWM to nurture relationships with its next generation clients.

Another expertise that HPWM had developed and tapped on for growth was to invest in private markets such as private equity, private debt, and private real estate. Under its aegis, at the request of two sponsoring families, a team was established for the exclusive purpose of developing their portfolios of direct investments in operation companies as well as through private equity funds[10]. With the HPWM Private Capital team, the company was able to expand beyond its traditional EAM activities, with a range of new offerings in the private markets.

In essence, HPWM had two clearly differentiated but closely synergistic segments to the business that allowed the company to tap into HNW and UHNW clienteles. There was the EAM business focusing on the needs of HWN clients and the UHNW FO business. HPWM also offered a wider scope of services such as structuring, consolidation of total net wealth, and private equity. It was well-positioned for future growth especially as the number of FOs jumped in Singapore. There were 221 single and multi-family offices in the Lion city in 2020, up from 129 in 2019 and 22 in 2018[11]. According to the the UBS Global Family Office Report 2020[12], 69% of the 121 single FOs surveyed viewed private equity as a key driver for investment returns.

Since 2017, HPWM had developed a comprehensive in-house capability to service two families that were deploying funds into the private markets. Brutsch added,

> *Any work done for the two families can be made available to other clients. For example, if a specific deal allows for additional investors to join, HPWM can open this deal to other clients. We hope to further build out this capability as we recognize that clients are increasingly keen to deploy capital in the Private Markets.*

On hindsight, Brustch felt that the development of FO operations and the Private Capital arm at HPWM were either pure good luck or clear vision. With the Singapore government continuing to offer tax exemption schemes such as Sections 13R and 13X under the Singapore Income Tax Act (refer to **Exhibit 5** for Tax Incentive Schemes[13]) on fund management to encourage the

10 https://www.hpwm.sg/private-capital/
11 "Singapore sees jump in family offices as Asia's ultra-rich set up camp", May 2021, https://www.businesstimes.com.sg/banking-finance/singapore-sees-jump-in-family-offices-as-asias-ultra-rich-set-up-camp, accessed June 2021
12 "Global Family Office Report 2020", https://www.ubs.com/global/en/global-family-office/reports/global-family-office-report-2020.html, accessed June 2021
13 For information on tax implications refer to section 13CA, 13R and 13X under the Singapore Income Tax Act, available at https://sso.agc.gov.sg/Act/ITA1947?ProvIds=P1IV-

setting up of family offices in the city-state, Brutsch expected FO services to be the key driver of HPWM's future growth. The company tapped into generous digital acceleration grants[14] from the government to improve its technology and digital capabilities. Some of these government initiatives helped the firm to develop a more powerful wealth and asset management platform that integrated a Portfolio Management system, Client Relationship Management (CRM), Anti-Money Laundering (AML) tool, e-banking and client reporting. In 2020, the company also launched a new platform which went live with 25000 securities, 10 years of transaction data, 500 portfolios and 200 consolidated portfolios[15].

Notably, HPWM remained entirely independent, which clients valued increasingly as they gained greater understanding of the EAM business model and desired alternatives to the traditional wealth management method through private banks. Initially, the three partners had a minority share in HPWM. However, by 2020, the three partners owned 73% of the company and held 95% of the voting rights while the remaining 5% was held by its employees.

Challenges

Asset managers and multi-family offices often reported recruiting relationship managers, coping with escalating regulations, high expenditures and target AUM's and educating the clients on the EAM model as their key challenges[16] (refer to **Exhibit 6**). Brutsch stated,

> *Imagine yourself cruising along Singapore's streets in a BMW 7 series with slick-backed hair and dark shades. Now, forget the car. Instead, picture spending $430,000 on a bunch of people, rent and administrative and investment management tools. Welcome to the world of independent asset managers. In Asia, running a fully-fledged independent asset manager can easily cost the equivalent of a BMW 7 series each month.* [17]

A full-fledged EAM would require close to S$ 1 billion (US$727.7 million) in AUM to survive, whereas a 'low cost' firm would require S$ 500 million (US$363.7 million) in AUM. The largest cost came from staffing expenditure which could range from 60%-70% of the total revenue, when personnel in operations, compliance and investments were all factored in. A relationship manager with 15 years of experience earned up to S$ 250K in base salary at a private bank; Mid-range compliance personnel asked for S$ 70K- S$100K per annum; Chief Investment Officers (CIOs), portfolio managers and analysts could charge above S$ 300K, S$250K, and S$150K, respectively, each year. As technology and regulations became the new normal in Asia, EAMs were also spending more to build operational capabilities. For instance, HPWM's portfolio management and consolidation tool, known as "WIZE" posted the third biggest expense for the company. Brutsch added,

> *You have to buy the licence and then you have maintenance costs to ensure you are always running the most recent version of the software.*

Regulatory Compliance Cost

The first key challenge for HPWM was the cost structure. As regulatory compliance became more complex, HPWM had to devote greater resources and manpower to meet the requirements

14 "Digital Acceleration Grant - Financial Institutions and FinTech Firms", https://www.mas.gov.sg/development/fintech/digital-acceleration-grant, accessed June 2021
15 The insider, December 2020, https://www.hpwm.sg/wp-content/uploads/2020/12/The-Insider-Vol-10-Dec-2020.pdf, accessed June 2021
16 "Independent asset managers & multi-family offices in Asia", May 2016, http://www.thirdrockgrp.com/wp-content/uploads/2013/07/Citywires-IAMs-and-MFOs-in-Asia-Report.pdf, accessed June 2021
17 Independent asset management isn't for the faint-hearted, July 2019, https://citywireasia.com/news/independent-asset-management-isn-t-for-the-faint-hearted/a1252819, accessed June 2021

on 'Know your Client' (KYC).[18] In 2020, HPWM employed two compliance officers, but Brutsch expected the time and cost of fulfilling regulatory compliance to further rise in the future. He doubted if the regulators would consider lighter regulatory touch at the EAM layer, even though the custodian banks too conducted similarly stringent client KYC processes while opening clients' accounts.

Another element that added to the cost structure was the investment in technology risk management. With wealth management becoming increasingly digital, complex systems had emerged and were connected to each other through the Internet of Things, creating several vulnerable entry points for cybercriminals to exploit the system. Moreover, the costs of financial data breach had increased manifold over time. Of utmost concern was the risk to reputation due to a cybersecurity violation. In the case of such breaches, the loss of trust accorded to the EAM was much larger than the monetary one. Brutsch in his 2019 interview with Citywire Asia, acknowledged that HPWM's portfolio management and consolidation tool is its third biggest expense.

Talent Attraction

In 2020, HPWM hired an operations officer, two assistant relationship managers, a portfolio manager and two senior relationship managers[19]. A key challenge that HPWM faced was in attracting senior relationship managers, given the perceived lack of income stability and degree of support it provided for the level of seniority it was looking to employ. HPWM had to compete with well-established traditional service providers, such as banks, for experienced candidates. In comparison to private banks, an EAM had lesser brand capital and fairly shallow pockets. For senior relationship managers who commanded steady and attractive salaries at private banks, the compensation structure of HPWM was outside their comfort zones and required a complete mind-set change, to that of an entrepreneur. HPWM did not offer guaranteed salary to relationship managers but linked their compensation to the revenues generated by them. Moreover, unlike the private bank model, EAMs could not support the managers with large teams of specialists, and senior relationship managers needed to possess strong technical knowledge as well. It was likely that HPWM would continue to need more relationship managers, compliance specialists, portfolio managers, and operations professionals as the company scaled up.

Perception of EAMs

A third challenge was the perception of EAMs in Singapore. There was large diversity in the types of EAMs in the country in terms of their size and business models. Besides, there were no well-documented research on their performance records, and no guiding standards on the competency requirement, resulting in a lack of information and trust in EAMs among clients. It was hard for investors to perceive EAMs with their ambiguous value proposition, at par with the traditional banks. Brutsch pointed out,

> *This is often a chicken and egg issue. A new EAM needs time to gain reputational mileage and build trust with clients, but without the client's trust in the first place, the EAM is unable to gain mileage.*

A related challenge stemmed from the regulators' perception of EAMs as riskier than the banks.

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18 The MAS Notice 626 sets out the obligations of a bank to take measures to help mitigate the risk of the banking system of Singapore being used for money laundering or terrorist financing. Paragraph 4 of the Notice deals with customer due diligence ("CDD") measures and provide guidelines for the client KYC (Know Your Client) and onboarding process to financial institutions licensed in Singapore. For more information, refer to the MAS website at https://www.mas.gov.sg/~/media/MAS/Regulations%....pdf, accessed June 2021.

19 The Insider, July 2020, Dec 2020, https://www.hpwm.sg/news/?type=insider, accessed June 2021

Regulators were required to assess the risks, formulate policies and guidance on this relatively young and growing development. However, the diversity of EAMs presented an information asymmetry challenge, unlike traditional banks that performed standard services guided by existing well-established rules and regulations. Brutsch admitted that EAMs, which were small in scale, lacked capabilities to deliver complex wealth solutions, stay updated with regulatory compliance demands, and manage digital risks. However, he emphasised that most EAMs gave utmost priority to risk management as they recognised that reputational capital was critical to their survival. Thus, the actual risk that EAMs brought to the ecosystem was much lower than the perceived risk.

Addressing the Challenges

Regulatory Compliance Cost

HPWM increasingly leveraged technology and grants from the Singapore government to develop and enhance its digital capabilities. The company also collaborated with custodian banks for maximising the efficiency in trade reporting, timeliness in quotations and trade executions, speed and ease of access to information and markets, etc., in order to fulfil the fair dealings and other aspects of regulatory compliance. Moreover, Brutsch hoped to engage MAS (via the Association of Independent Wealth Managers[20]) in dialogue for mutually working out viable solutions, which would distribute the compliance costs efficiently along the ecosystem/value chain, while allowing Singapore to maintain one of the highest regulatory compliance standards in the world. A rouge EAM could potentially trigger a scandal that would destroy the reputation of the sector, and hence regulators tried to oversee the sector to avoid such situations.

Talent Attraction

Although talent attraction issues for HPWM were similar to those faced by start-ups in other sectors, there was one key difference: an EAM required seasoned wealth professionals, not fresh graduates. One standard approach HPWM tried was to engage professional head-hunters for scouting suitable talent. However, it did not work out well as the start-up, unlike large banks, lacked deep pockets for paying the high recruitment fees. Another approach was through word of mouth and referrals. However, that generally worked slower as it was dependent on the size and reach of the EAM network. Even when either approach generated a qualified candidate, it was not sure if the start-up would be able to recruit successfully because its employee compensation model required candidates to have an entrepreneurial mind-set. Brutsch elaborated,

> *Changing people's mind-sets is the key challenges faced by EAMs. While individuals may desire to change, it is often their personal and family obligations, and perceived job security in large organisations that hold them back from making the step into entrepreneurship.*

Perception of EAMs

HPWM was one of the earliest EAMs to start in Singapore in 2009, when the EAM business model was hardly known by Asian clients and wealth management was dominated by traditional private banks. Hence, the EAMs had to expend lots of effort to educate clients on the EAM business and revenue models, as well as the value propositions of the EAMs in order to convince clients to engage with the EAMs on their investment needs instead of private banks. Moreover, EAMs were younger, and smaller in AUM and organizational scale than private banks. Thus, they were perceived to have little brand capital compared to top league private banks by wealthy clients who were familiar with the private banks and had relationships with the private banks for

20 https://www.aiwm.sg/

some time. For instance, a wealthy client with net worth of S$ 500 million would not trust an EAM that had AUM of only S$ 300 million because the client was better capitalised than the EAM. Moreover, the EAM community was very diverse ranging from small EAMs that managed less than S$500 million and with a staff strength of less than five to large EAMs like HPWM with an AUM exceeding S$1 billion and a staff strength of more than twenty. The smaller EAMs would face resource constraints in deploying risk management tools and meeting regulatory compliance requirements.

Over the past decade, the growth of EAMs in Singapore did create greater awareness about their role and function in the industry. The EAM community in the country also worked hard to educate and engage clients, regulators, and other stakeholders. A rouge EAM could potentially trigger a scandal that would destroy the reputation of the sector, and hence regulators tried to oversee the sector to avoid such situations. In 2011, Brutsch was one of the pioneers to establish the Association of Independent Wealth Managers (AIWM) to serve as the unifying voice of EAMs on critical matters such as regulatory compliance. With more EAMs joining the Association, the goal was to create a stronger reputational capital.

With time, high net worth clients' needs had become significantly more complex and they demanded high technical competency from their investment advisors. Brutsch believed that establishing a sort of "ISO" standards within the EAM community would ensure a minimum standard of competency and help cultivate a positive perception of EAMs among the stakeholders.

The Future

Assets managed by EAMs in Europe stood at about one-third of total financial assets, while in Hong Kong and Singapore, it was reported to be only 3% and 5% respectively.[21,22] With Europe as a reference guide for a mature EAM ecosystem, there was clearly a huge growth potential for the EAM landscape in Singapore.

Brutsch was confident that the EAM sector in Singapore would continue to grow in terms of the number of players and AUM, as high net worth individuals and families were attracted to the island for their wealth management needs. Notably, the growth of family offices in Singapore had led to an increasing demand for asset managers to manage the family wealth through an in-house portfolio management team of private banks or through external asset managers and multi-family offices.[23] However, he was painfully aware that despite being an early entrant in the market, HPWM, would need to constantly innovate to anticipate and stay abreast of new challenges to ensure that it stayed relevant for the increasingly sophisticated target audience. On a separate note, scale was also crucial for his business. The EAM space was traditionally fragmented. However, increased costs and regulatory requirements made it increasingly difficult to run a small EAM business, and as scale became more important, consolidations could likely be in the cards for the near future.

21 McKinsey & Company, "State of the European asset management industry: Adapting to a new normal", November 2019, https://www.mckinsey.com....ashx, accessed January 2021.
22 Salomon Wettstein and Jerreme Yeo, "External Asset Managers in Singapore and Hong Kong – addressing custodian banks' Challenges on EAM service offering", synpulse, https://www.synpulse.com/_Resources/...SG.pdf, accessed January 2021.
23 The Straits Times, "About 200 single family offices in Singapore manage some $27 billion in assets: Tharman", 6 October 2020, https://www.straitstimes.com/business/banking/about-200-single-family-offices-in-singapore-manage-some-27-billion-in-assets, accessed January 2021.

Brutsch knew that he could not become complacent with HPWM's initial successes, and his firm would need new avenues for growth, talent development, and engagement with the regulators and the community. How could he lead HPWM to the next level of growth?

The "WIZE" platform had been a good start towards this end. He had shared his opinion in a publication,

> *We used the last 10 months to consolidate our Portfolio Management System, reporting tool, KYC, AML and remote access for end clients onto a new platform. This was a massive project for us, but I am confident that this has further strengthened our offering and will put us in good stead for future growth. In 2021, we will focus on harnessing all the functionalities of this new system.*[24]

How could HPWM's existing strategies continue to be applicable and relevant in the future? What could HPWM do to retain its robust growth rate and market leadership in a growing market with a surge of new entrants and technological advances?

24 Independent Wealth Management in Asia - Growing the Business in 2021 and Beyond, March 2021, https://www.hpwm.sg/wp-content/uploads/2021/03/Independent-Wealth-Management-in-Asia-Growing-the-business-in-2021-Hubbis-Panel.pdf, accessed June 2021

EXHIBIT 1

THE MAS' NOTICES AND GUIDELINES ON THE SALE AND MARKETING OF INVESTMENT PRODUCTS

(1) Notice SFA 04-N12 Sale of Investment Products

This notice sets out requirements for:

- Conducting a Customer Account Review before opening an account for a customer to transact in listed specified investment products.
- Conducting a Customer Knowledge Assessment before transacting in unlisted specified investment products for a customer.
- Documentation and record keeping

Interested readers can refer to the notice: https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Securities-Futures-and-Fund-Management/NOTICE-ON-THE-SALE-OF-INVESTMENT-PRODUCTS--4-Jan-2019.pdf

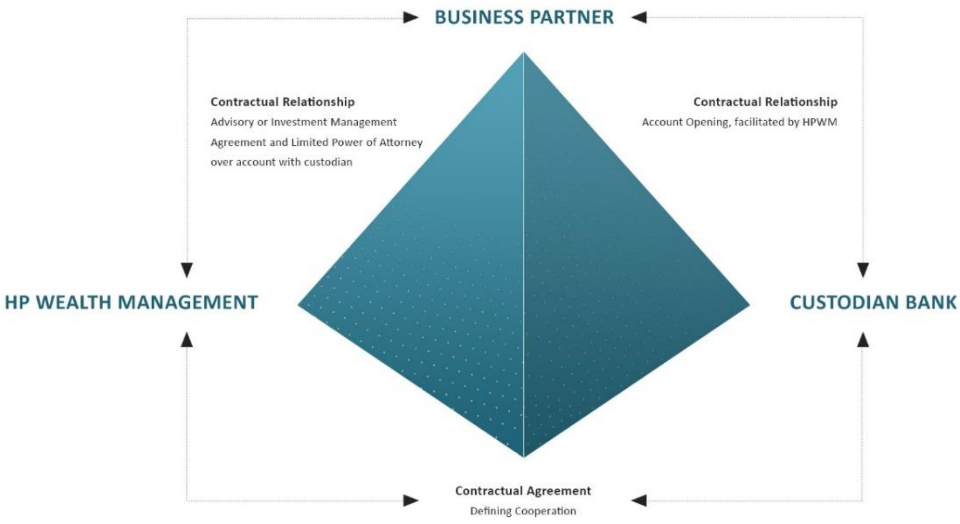
(2) Notice FAA-N16 Recommendations on Investment Products

This notice sets out the standards to be maintained by financial advisers and representatives when making recommendations on investment products, including assessing a customer's knowledge and experience in complex products. These requirements cover the following aspects:

- Know your client.
- Customer knowledge assessment.
- Needs analysis.
- Documentation and record keeping.

Interested readers can refer to the notice: https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Financial-Advisers/Notices/NOTICE-ON-RECOMMENDATIONS-ON-INVESTMENT-PRODUCTS--4-Jan-2019.pdf

EXHIBIT 2: BUSINESS MODEL OF HPWM



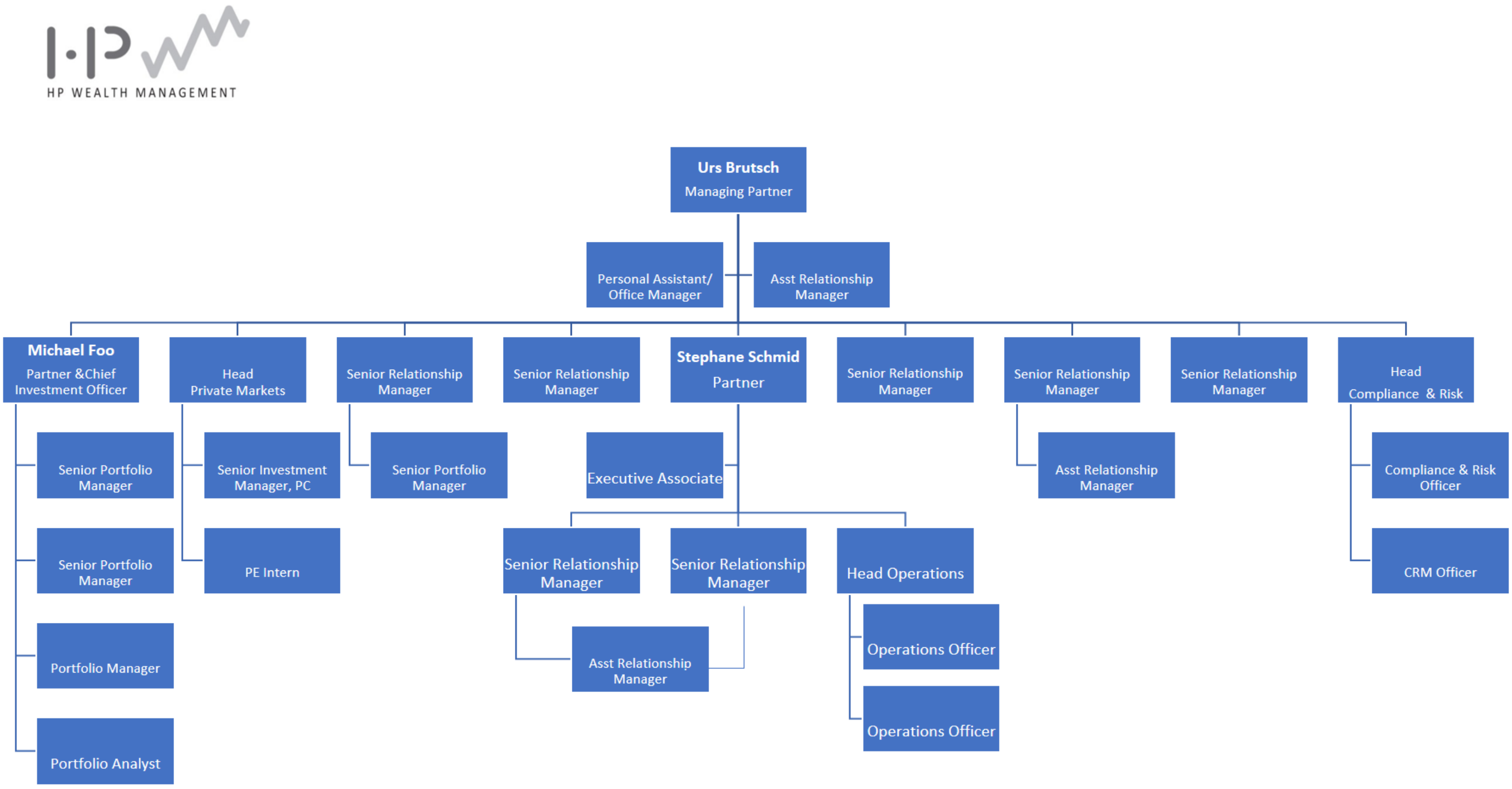
Source: HPWM Company Data

EXHIBIT 3: FACTORS LEADING TO GROWTH IN THE EAM INDUSTRY

Factors leading to growth in the EAM industry
1. Ability to focus on long term success of a relationship and to be aligned with needs of clients, as they are not pressured to meet sales targets
2. EAMs provide clients with sense of stability as they are less likely to change employers compared to Relationship Managers (RM)
3. EAM spend more time in understanding client's needs
4. EAMs are experts in providing the sophistication and specialisation required by the UHNW clients or families

Source: Adapted from: External Asset Managers in Singapore and Hong Kong – addressing custodian banks' challenges on EAM service offering, http://www.synpulse.ch/_Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/EAM%20Case%20Study_SG.pdf, accessed April 2021

EXHIBIT 4: ORGANISATIONAL STRUCTURE OF HPWM



Source: Company Data

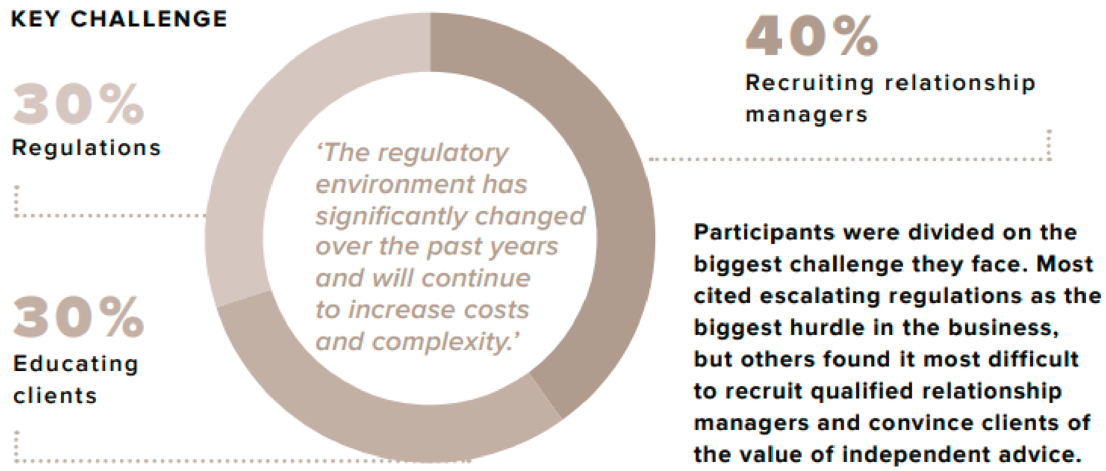
EXHIBIT 5: TAX INCENTIVE SCHEMES

There were various tax incentives to attract fund managers to manage investment funds in Singapore[25]. These were outlined in section 13CA, 13R, and 13X under the Singapore Income Tax Act.[26] For example, section 13C grants exemption of income of trustee of trust fund arising from funds managed by fund manager in Singapore, section 13R grants exemption of income of company incorporated and resident in Singapore arising from funds managed by fund manager in Singapore, and section 13X grants exemption of income arising from funds managed by fund manager in Singapore. The tax incentives under Section 13R and 13X were applicable to SFOs who set up a Singapore-based fund company to manage own family wealth, subjected to a minimum annual business expenditure for 13R and additional requirements on minimum asset under management and professional headcount for 13X. The Monetary Authority of Singapore (MAS) had further allowed SFOs to obtain licensing exemption for the fund company as long as it could be shown that the SFO and fund company were related corporations. SFOs did not come under financial regulation provided that they did not manage third parties' monies.

The three schemes were due to expire on 31 March 2019 but the Singapore Budget 2019 proposes an extension of these schemes to 31 December 2024[27].

[25] Singapore Tax Incentive Schemes for Fund and Fund Managers, https://www.argusglobal.co/tax-incentive-schemes-for-fund-and-fund-managers/, accessed April 2021
[26] Income Tax Act, https://sso.agc.gov.sg/Act/ITA1947?ProvIds=P1IV-, Accessed Jan 2021.
[27] INSIGHT: Singapore Budget 2019—Changes for the Asset and Wealth Management Industry, March 2019, https://news.bloombergtax.com/daily-tax-report-international/insight-singapore-budget-2019-changes-for-the-asset-and-wealth-management-industry, accessed June 2021

EXHIBIT 6: KEY CHALLENGES FACED BY EAM/MFO in 2016



Source: CITYWIRE ASIA, May 2016, http://www.thirdrockgrp.com/wp-content/uploads/2013/07/Citywires-IAMs-and-MFOs-in-Asia-Report.pdf, accessed April 2021.