Advisor Spotlight:

Silvercrest Asset Management

Rick Hough, CEO and president of North America's only publicly listed, independent wealth management firm, chats to *PAM* about the state of the industry and life after an IPO

BY STEPHANIE BARTUP

The RIA market's evolution over the last decade can be defined by three words, according to Silvercrest Asset Management's CEO and president, Rick Hough: competitive, complex and commoditized.

Rick Hough, Silvercrest's CEO and president

Hough, who has been with the multifamily office for more than a decade, was named CEO last year after the death of co-founder G. Moffett Cochran. He says that of the changes he has witnessed since Silvercrest's conception in 2002, the rise in competition has been stark.

"When people ask about Silvercrest's competition, I reply with a long list: banks, regional brokers, traditional trust companies, wirehouses, insurance companies, accounting firms, law firms, institutional asset managers, online service providers and, of course, a growing pool of RIAs," he explains. "As you might expect, this has created considerable competition not only to win clients but to recruit talented, experienced professionals."

He says the fastest growing segment of competitors is independent RIAs and adds that, in recent years, their ranks have been swelled by former brokers who are bringing strong sales backgrounds to the industry.

"Those brokers who successfully adjust from a brokerage to the fiduciary standards required of a wealth manager can be formidable competition," he adds.

Hough says that over the past ten years, he has noticed that clients have begun demanding a greater range of investment exposure, more intricate asset allocation, more robust risk management and more in-depth reporting.

He says this trend has compelled upper-tier wealth managers to continually upgrade and expand their expertise and elevate their technology.

"These are not inexpensive propositions, and create challenges for RIAs that are insufficiently capitalized and have gaps in their in-house capabilities," he says.

Hough also notes that the ability to differentiate oneself as a wealth advisor has become more of a challenge, as "virtually every entrant to this business purports to offer similar services and attributes".

"Among prospective clients, this creates a perception of commoditization and makes it increasingly difficult for wealth managers to differentiate themselves, even in the upper realm of the market," he explains.

However, Silvercrest Asset Management has managed to set itself apart from the competition, in a way that many RIAs are unable to do. On June 26, 2014, the firm became the nation's only publicly traded, independent wealth management company.

Hough says the decision to take Silvercrest public and raise primary capital was five-fold. Firstly, the move allowed the firm to better serve its clients by establishing offices in 'money center cities' such as Chicago, Dallas, Houston and San Francisco, in addition to its existing offices in New York, Boston and Virginia.

"Going public also meant that we were able to acquire value-added investment capabilities and wealth advisory talent," he explains. "The firm also can maintain a high degree of financial stability, as partners can sell into the public markets on their own timelines rather than draw on the firm's cash reserves; this frees cash flow to invest on behalf of clients and the business."

He adds that the decision "reinforced the company's intent to remain independent", and finally, allowed it to provide greater financial and strategic transparency, while differentiating itself from other wealth management firms and raising its profile in the marketplace.

More than 12 months on, Silvercrest still maintains its unique listed position within the market; and Hough says its position as the industry's sole listed entity is likely due to the small size of many of its independent competitors.

"Investors were attracted to Silvercrest because of our size [$13bn assets under management at the time of the IPO], our maturity, staying power – our client

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base remained stable through two severe market downturns – continued robust growth and ability to scale for growth," he says. "The majority of independent wealth managers lack sufficient size to interest investors, even if they possess some of those attributes."

The firm has continued to grow since its decision to launch the IPO, and advised on $16.7bn of assets as of June 30. The majority of Silvercrest's clients are wealthy families with more than $10m in investable assets, while average assets under management from private clients "hover above $30m", says Hough.

"Our client base looks quite similar to the wealth of the United States at large," he explains. "Most of our clients have accumulated fortunes through their own efforts, often as entrepreneurs, but we also manage a considerable amount of inherited money."

In the past few years, he says, he has noticed family clients' concern over financial risk having intensified.

"In response, we developed capabilities to better provide clients with greater clarity as to their overall financial risk," he says. "We also are continually sourcing and researching investments that can help diversify and moderate portfolio risk."

Hough says that as a rule, the firm approaches equity investing solely from a 'bottom-up' perspective based on fundamental value.

"We don't make thematic, top-down determinations as to which industries are poised to out- or under-perform," he explains. "Our goal is to invest in attractively valued, high-quality companies, regardless of whether their respective industries are temporarily in or out of favor."

He adds that although many of his clients recognize the diversification benefits that asset classes and strategies such as private equity, hedge funds, frontier investments and managed futures offer, they also are well aware that many alternative managers generate only modest value over time, especially net of fees.

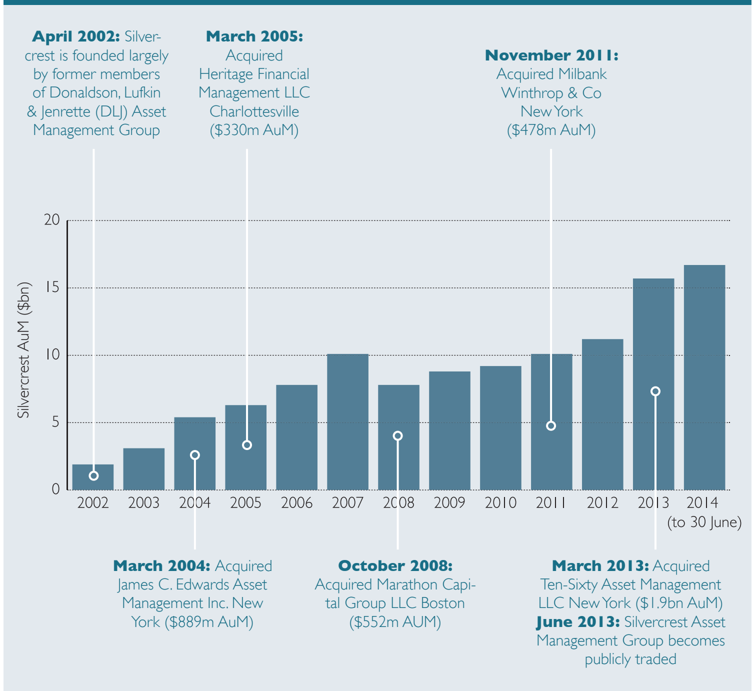
"They look to us to locate managers that are apt to deliver an attractive net return and also provide tangible diversification benefits; we put a great deal of effort into this exercise," he adds.

Discussing the challenges that his high-net-worth family clients face when looking to make investments, Hough says there is an "inescapable reality" in that every client family has different wealth goals and preferences compared with every other family.

"To provide an effective investment solution we must, by necessity, understand their trust and tax situations, legacy plans, family dynamics, risk inclinations, etcetera," he says. "The challenge for the client and the wealth manager is to ensure that the investment portfolio addresses the family's specific situation to as great an extent as possible. There is no cookie-cutter template to achieve this."

But Hough does say that there is one universal challenge which is far greater today than two decades ago, which is the overwhelming number of investment opportunities now available to clients.

SILVERCREST'S HISTORY



"Although this may be considered a positive development, the suitability of these opportunities is often difficult to gauge," he explains. "It takes intense due diligence to understand these strategies, assess the manager's ability, and decide if the strategy can play a productive role in a particular client's portfolio."

Hough says that there has been "considerable discussion" in the industry regarding automated, online RIAs. Currently, these commonly called robo-advisors primarily serve the middle market, which has less complex financial needs – but he says that top-tier wealth managers shouldn't dismiss this product too easily.

"Some members of our industry are convinced web-based services can never be a threat to traditional wealth managers, because upper-tier clients demand personal service and a high degree of customization; I stop short of saying never," he admits.

Hough says that experience has "repeatedly confirmed" that even the wealthiest clients tend to over-estimate their tolerance for financial risk, adding that "robo-advisers do not yet sufficiently address the well-known psychological barriers to effective investing; a strategic asset allocation is only as good as a client's ability to stick with it".

"The next time there is a sustained market disruption [such as the 2008 financial crisis], it will be interesting to see how resolutely robo-advisor clients can maintain their investment positions," he mulls. "At the end of the day, robo-advisor technology will need to overcome this and other issues to successfully manage investment portfolios for the wealthiest clients." ■