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Kleinwort Hambros’ CEO on piecing together 400 years of heritage

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Welding together Kleinwort and Hambros – two of Britain's most historic banks founded in 1786 and 1839 respectively – was always going to be a challenge.

But from the start Eric Barnett, group chief executive officer and the man tasked with their integration, said that something was immediately important to him: not losing sight of the end goal.

'There is a danger when you do a merger that the integration and the merger becomes seen as the end in itself,' he said. 'You have to stop thinking like that, this has to be seen as a stepping stone on to something more.'

'It will be a while before we are the biggest player in the UK. But we have an opportunity with our brand and our service record to be the most prestigious brand operating in the market.'

Trying to keep your eyes on the prize can be tough when faced with a task as daunting as joining two complex, highly regulated organisations, active in multiple jurisdictions, however.

Kleinwort Hambros' parent company Société Générale completed its acquisition of Kleinwort Benson from previous owner Oddo & Cie in June 2016.

'Once we bought Kleinwort Benson, the first thing to say is both businesses in themselves are quite complicated structurally,' says Barnett. 'For a while until the legal merger – which has only just happened – we ended up with two UK banks, two Channel Island banks and a subsidiary in Gibraltar as well.

'So my job, effectively immediately post-merger to some degree, doubled. We talk about merging but actually it wasn't a merger, it was an acquisition, with two constituent parts of the business, which meant we still had two sets of everything.'

Adding up the potential iterations and repetitions of overlapping functions, Barnett says he may have technically been in charge of five individual banks.

'I was what you would call double-hatting. I became CEO of both banks and chair of both banks in the Channel Islands. If you are talking about me specifically it was obviously a doubling up of regulator relationships, client bases. Wherever we had two boards, we now had four instead.

'So, in some ways, the role doubled even now the businesses were very similar.

'The interim period was quite challenging. Not just for me but for my colleagues, who are all working for Hambros and Kleinwort Benson. Every single head of department and was effectively doubling up.'

Even though the legal merger was formally signed off in early November, Barnett explains the challenges are far from over.

£16bn assets under management

1,078 members of staff

8 offices

'Unfortunately, the one thing that hasn't been done yet is the systems, so the structures are now merged but we are undergoing a system transformation.

'The teams are merged and the clients are getting the benefit of products from each side, but the systems are the final piece of the jigsaw.'

Barnett stated he expects the two sides of the business to migrate onto a common system sometime next year.

The benefits of the combined business, as well as the benefits for clients, will only come when the two legacy banks work on the same platform, he says.

'The merger will have been completed within 24 months, which doesn't sound long, but when you are going through those 24 months it seems like a long time. In the context of banks have been around for 200 years it's pretty good going.'

Despite, all of the headaches, Barnett seems unruffled and hints that the bank is already ready to consider further bolt-on acquisitions.

'I hope the business can be a platform for future growth; with organic growth or with further external growth opportunities. If there was another option to acquire a business then I don't think we would rule that out.'

He highlights that although the business' regional presence is already quite extensive compared to some of its peers, with offices in London in Edinburgh, Leeds, Cambridge, Newbury, Jersey, Guernsey and Gibraltar, he still sees potential to open up new markets.

Expanding further into the regions or growing its existing offices is certainly on 'our radar' he says.

'The firm does not have any representation in Manchester, Birmingham or Bristol, which are fast becoming key areas for wealth management.

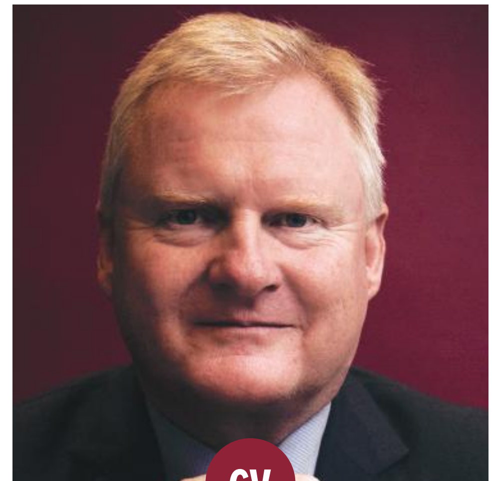
'It will be a while before we are the biggest player in the UK. But we have an opportunity with our brand and our service record to be the most prestigious brand operating in the market.'

Barnett thinks the bank has many routes it can take to achieve this ambition beyond simply focusing on regional growth. One of which is building the bank's digital footprint.

It has been known for a while that Kleinwort Benson had been work on a digital offering – a project that had been put aside during the merger. Barnett reveals he plans to rekindle this ambition and take the project forward.

'If you look at the volume of AUM [assets under management] globally managed through robo advisers it is an absolute fleabite compared to the number managed by wealth managers. But that number will change, we cannot ignore that.

'The challenge for a lot of pure robo advice players is that to some degree they are more IT platforms than they are investment platforms. I think that is where banks do have



CV

ERIC BARNETT

2016
Kleinwort Hambros group chief executive officer

2007
SG Hambros chief executive officer

1986
Hambros lending officer

1983
Natwest

a slight advantage in that they are probably still more trusted to manage money than a pure technology platform.

'The reason I believe this is when people are putting their money into something – their pension or their ISA – they want to make damn sure it is invested. I feel it's more important they believe in the people making their investment decisions than whether the platform looks smart or clever or pretty online. Online offers are more driven by the platform and the investment expertise so that is why I think that combining the two is an achievable aim.'

Given that many levels of client trust come from the legacy and reputation of the bank, he warns that an unthinking pursuit of digital could cheapen the companies public images.

'I think that is a valid question. But on the other hand, in a completely different market, BMW make a 1 Series and they make very big posh cars on the other end as well.

'It's not necessarily true you have to lose your cachet by dealing what you do in smaller parcels. The key thing is to differentiate your offerings efficiently so people in each area no what they are buying and paying for.'

He also notes that the bank has never been an exclusively opulent brand, in terms of ultra-high net worth individuals, although it does cater for a number of them.

He adds: 'We do have a floor which is around about one or two million [pounds] but that is more driven by the cost of delivery rather than a sort of snobbish element.'

Therefore, he notes that by adding a digital element, Kleinwort Hambros can lower that initial barrier to entry and open the bank up to a completely new range of clients. ●

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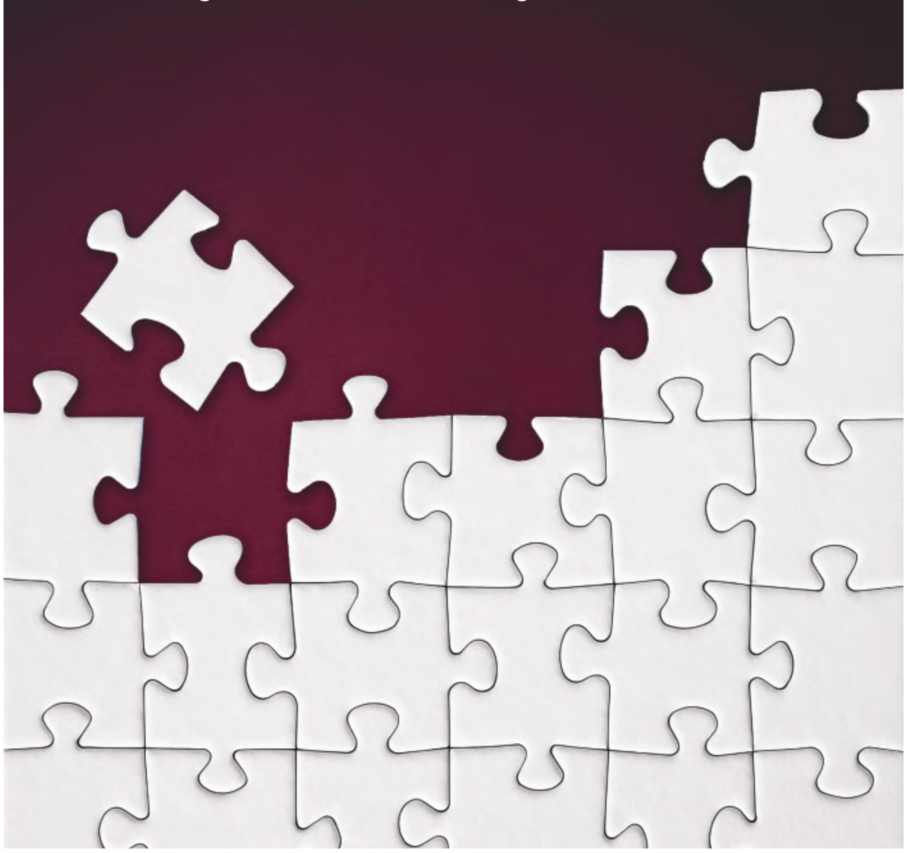

HOW WE RUN MONEY

BY ERIC BARNETT

Kleinwort Hambros' investment philosophy centres on three guiding principles.

Firstly, we believe asset allocation is the most important decision we make, and it should be actively managed. Essentially, we strive to get the big decisions right.

Secondly, when assets are expensive, risk is not well rewarded; when assets are cheap, it is. Indeed, valuation is a near obsessive focus for us.

Finally, we are nothing if not prudent, and believe the pain of losing money – the ultimate definition of risk – is much worse than the fleeting joy of spurious gains.

Simply put, we aim to get the big decisions right: asset allocation should be actively managed. We take risk only when risk is well rewarded as valuation is the key driver of long term returns. To avoid large losses we construct portfolios to withstand market stress scenarios.

We invest in a wide range of asset classes including cash, equities, bonds, commodities and hedge funds, and do so using a VaMoS framework which puts the theory of our investment philosophy into practice. We focus incessantly on valuation (Va), momentum (Mo) and sentiment (S):

- Valuation: participate in positive trends and avoid negative trends.
- Momentum: invest when assets are cheap and avoid them when they are expensive.
- Sentiment: buy when markets are oversold and sell when they are overbought.

At its simplest, when an asset is unloved, and cheap, we look kindly upon it. History shows the best returns are to be harvested from undervalued and unloved positions, particularly as momentum starts to trend upwards. The opposite is equally true: even quality assets can be bid to the point where they offer poor prospective returns, often a precursor to momentum turning.

Ironically, at these times, many investors are far too complacent, oblivious to the actual levels of risk. Of course, none of this happens in a vacuum: the economic scenario is of critical importance, and we dispassionately gauge if the stage of the business cycle is fruitful for risk taking.