

Private Wealth Management - September 28, 2009

## The mindset of both clients and private wealth managers is changing - an interview with Ton van Welie

In this month's interview, Ton van Welie, Chief Executive Officer of Ortec Finance, discusses a new EDHEC-Risk study on asset-liability management in private wealth management, the impact of the financial crisis on risk management and modelling, and Ortec Finance's business plan for Europe. Ton van Welie has been CEO of Ortec Finance since 2006 and oversees the daily operations of the leading, global provider of solutions for holistic risk/return management for pension funds, insurance companies, asset managers and real estate managers.



Ton van Welie

The results of the first-year research from the EDHEC / Ortec Finance "Private ALM" research chair have just been published in the form of a study entitled "Asset-Liability Management in Private Wealth Management". In the report, EDHEC provide a formal framework suggesting that asset-liability management can ensure that private wealth managers are able to offer their clients investment programmes and asset allocation advice that truly meet their needs. How does this approach tie in with Ortec Finance's philosophy and experience in the field?

**Ton van Welie:** This philosophy is completely in line with Ortec Finance's client-centered advisory methodology which has been the basis of our success for the last 25 years.

In the field of private wealth, to our great surprise we have found out that most private banks construct client portfolios using techniques and tools that optimize the assets only, without a direct link with the objectives of the client.

However, the mindset of both clients and Private Wealth Managers is changing. After the recent recurring crises clients demand more and want to be informed proactively about the consequences of the realized returns on their objectives. This requires not only the right advisory process but also continued monitoring of it.

Our answer to this is the use of institutional quality scenario analysis in PWM: through scenario analysis risks can be quantified for both liquidity and the objectives desired. For a client to make a well-founded decision and receive an answer on the implementation of the investment problem, he or she needs to be provided with the proper information. Importantly this shared understanding of the reasons for a given portfolio does also enhance the client relationship and through that also the retention.

**In the study, the EDHEC authors also argue that private wealth managers actually implicitly promote an ALM approach to wealth management because they claim to account for the investor's goals and constraints, but that the technical tools involved are often non-existent or ill-adapted. Would you agree with this analysis?**

**Ton van Welie:** Given our background of trying to support our institutional clients' efforts in reaching certain specific targets, we are in full agreement with this analysis: as Professor Martellini has stated, if the tools are available to construct portfolios which maximize the probability of reaching specific targets, what would be the justification for not doing so?

In practice we see a very large difference in the behavior of the clients who have been advised with the help of the ALM approach and those who have not. The traditional approach is not clear on why a certain portfolio is recommended and therefore is neither explicit on the risks involved nor on the probability of achieving the personal objectives.

**Have you found that the financial crisis has led to heightened concern for risk management and modelling among your clients?**

**Ton van Welie:** Absolutely, asset owners such as pension funds and private clients realize that they are exposed to more risk than they expected, highlighting the need for risk management.

Risk management applies not only to executing the mandate and staying within the constraints of the portfolio, but requires proactive management of the risks that impact the objectives of client: periodic results must be in our view be compared with the strategic goals and the related assumptions so that the probability of achieving those goals is maximized.

This realization is leading into emphasizing alternatives to static buy and hold strategies: the options vary from forward looking dynamic ALM to strategies based on given policy ladders triggered by either potential market dislocations or changes in the emotional risk tolerance of the client. Again it appears that the institutional side is leading these efforts but in particular our discussions with family offices are leaning to this direction. Obviously focus on the long term is not acceptable for baby-boomers or their pension funds anymore given the performance of the markets during an important part of their wealth accumulation phase.

At Ortec Finance we are very excited about these trends as they are very much in line

with our philosophy: we have invested more than 10 years into our Holistic Scenario Modeling that allows us to support our client base in this new challenge.

**Ortec Finance has a considerable presence in the Netherlands and is also active in a number of other European markets. What is your business plan for Europe for the next few years?**

**Ton van Welie:** As you know Ortec Finance was founded in Rotterdam in 1981 and we initially focused on the Dutch markets. Our client base in Holland ranges from pension funds, insurance companies and asset managers to municipalities, housing corporations and financial planners.

However, for more than 10 years we have already been working with several leading institutional investors globally. Given this basis we decided a couple of years ago to start expanding more structurally and now have personnel that is dedicated to clients outside Holland.

In Europe we're especially active in Switzerland, UK and the Nordic markets. With local offices established in Switzerland and the UK we are extending our global presence: the fact that we have critical mass to employ experts in the various areas of competence gives us the edge on building a deep understanding of our target markets and we combine this with a very strong technology basis.

**You have been working with EDHEC-Risk on the "Private ALM" research chair for one year now. What initially attracted you to academic research and why did you choose EDHEC-Risk in particular?**

**Ton van Welie:** Besides its own research, Ortec Finance has always had strong ties with the academic community, working closely with Erasmus University and Free University in the Netherlands to ensure we remain leading in innovation. Some seven years ago we started introducing institutional ALM techniques to the private wealth market to help advisors give better advice and guidance to their clients.

Through our partnership with EDHEC-Risk in the field of Private ALM we are looking to expand the academic foundation on which Private ALM solutions are built. In combination with our own research efforts and experience in delivering solutions to Private Wealth Managers in this field and with our background of over 25 years of experience in the institutional environment and in ALM solutions, the partnership with EDHEC-Risk is a natural fit for us.

We are very excited about how this research may be useful to our clients in determining the gap between what the industry is currently defining as the state of the art and what truly client-centric private wealth management looks like.

#### **About Ton van Welie**

As CEO of Ortec Finance since 2006, Ton van Welie oversees the daily operations of the leading, global provider of solutions for holistic risk/return management for pension funds, insurance companies, asset managers and real estate managers.

He has been with Ortec for over fifteen years, fulfilling several different functions throughout the organisation. After working on several asset management projects, he developed the housing corporations business for Ortec Finance. Following his appointment as the Head of the Housing Corporation division he moved to manage the operations of Ortec Finance on a larger scale including the comprehensive organisational restructuring with the target of improved client focus as well as expansion strategy outside Holland.

Mr van Welie graduated from the Erasmus University of Rotterdam with an MSc in Econometrics. He has maintained strong links with academia, teaching as a guest lecturer, and has published in various professional journals.

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